DIVERSITY IN THE TANZANIAN BUSINESS COMMUNITY

ITS IMPLICATIONS FOR ECONOMIC GROWTH

Submitted by

Michael F. Lofchie
Department of Political Science
University of California, Los Angeles

and

Thomas Callaghy
Department of Political Science
University of Pennsylvania

to

USAID MISSION
DAR ES SALAAM, TANZANIA

March 1, 1996

EXECUTIVE SUMMARY

This report profiles diversity in the Tanzanian business community and assesses its implications. It stresses that Tanzania is in the early stages of emergence from a socialist period that lasted nearly 30 years. The memories and institutional legacy of that period continue to influence all aspects of political and economic life, including business. Despite a decade of economic reforms, Tanzania’s business environment remains one of high risk and great difficulty.

The difficulties of Tanzania’s business environment are numerous. They include the following. (1) **Bureaucratic Difficulties.** Members of the business community believe that portions of the bureaucracy continue to exhibit the laxity and indifference to performance of the socialist era. The bureaucracy is also perceived as still inclined toward a statist approach to economic management. (2) **Corruption.** The report states that corruption has mostly negative effects. It raises the costs of doing business and thereby imposes an implicit tax on all Tanzanians. It transfers economic resources from public sector institutions such as schools and hospitals to Tanzania’s political leaders and civil servants in their capacity as private citizens. It has also induced high levels of public cynicism and "donor fatigue." (3) **Poor Infrastructure.** Tanzanian business is constrained by the poor condition of the country’s infrastructure such as inadequate telephone communications and irregular and unpredictable electricity and water services.

Business is further constrained by additional factors. (4) **Political Weakness.** Business leaders feel that they have little or no leverage over a government whose actions can spell the difference between economic success and failure. (5) **The Party System.** The party system does not present the business community with a supportable alternative to the present government. (6) **Lost Organizational Skills.** The business community has a vast agenda in rebuilding organizational and entrepreneurial skills lost during the socialist period. (7) **A Deficient Legal Environment.** Property rights in productive assets are poorly spelled out and the continuation of repressive laws from the socialist period exerts a chilling effect. (8) **High Interest Rates.** Credit is difficult to obtain and available only at high interest rates. Government bonds paying 40-50% "crowd out" private borrowing.

<u>Diversity in Tanzanian Business</u>. Diversity in Tanzanian business assumes several distinct forms. (1) **Old vs. New Enterprises.** Some private businesses survived during the socialist era but these were highly dependent upon political protection. Because of the new economic environment and the flood of imports, they are dying out. New businesses able to thrive in a competitive environment are taking their place. (2) **Trading vs.**

Manufacturing. The economic interests of these two groups are diametrically opposed. Manufacturers seek protection and have formed the CTI to try to obtain it. They have been unsuccessful. Traders seek freedom to import. They have prevailed. Owing to poor customs enforcement, Tanzania is a virtual duty-free zone.

(3) **Asian vs. Indigenous Enterprise**. The report explores the stereotype that Asians (a) concentrate in trade; (b) avoid investments in fixed assets; (c) corrupt the political system to the detriment of African welfare; and, (d) that Asians have an unfair advantage over indigenous business. It makes the following points. That overt racial antagonism toward Asians based on these beliefs has begun to decline; that individual members of the Asian community have become heavily invested in fixed assets including factories and plantations; that this fact is becoming widely known and better appreciated; that many Africans have an empathic understanding of the repeated traumas inflicted upon Asians in the past; and that the CCM has employed its moral suasion to create a non-racial political climate.

Asian business entrepreneurs acknowledge problems of corruption but raise serious issues: that the very concept of Asian is problematic when applied to families that have lived in Tanzania for generations; that cases of corruption are isolated to a small minority, some of whom are recent arrivals or returnees; that collective responsibility is not an appropriate conclusion; that blame should be assigned to the recipient as well as giver of bribes; that business intrinsically prefers a predictable, law-abiding environment; that hedging strategies which keep assets overseas are a rational response to the insecure environment and not a culturally determined phenomenon.

Other aspects of diversity considered in this profile are: (4) the growing importance of multinational enterprise; (5) the division between formal and informal sector activities; and, (6) a gender gap between female owned and male owned enterprises.

The report <u>concludes</u> by assessing Tanzania’s politico-economic future. It finds two possible scenarios. [1] **Reinvigorated Reform:** This scenario hinges on an assessment of Mkapa and the people that he is likely to surround himself with. Driven by the terrible realities of the current economic crisis, Mkapa is seen as an independent leader, one not tied to Nyerere, who has the strength and will to relaunch the reform effort by taking some very tough decisions early on and making sure that they are carefully implemented. [2] **Stalled Reform:** This scenario paints a very different picture of the next government. It sees Mkapa as being honest and well meaning, but too tied to Nyerere and other barons of the party to be decisive in choosing a capable cabinet, taking tough decisions quickly, working closely with the Fund, Bank and donors, much less being able to provide strong, visible leadership and a vision of some form of a new capitalist future.

GLOSSARY OF ACRONYMS

ATC	Air Tanzania Corporation
CCM	Chama Cha Mapinduzi (Revolutionary Party)
FINDP	Financial Sector Development Program
IPC	Investment Promotion Center
LART	Loans and Advances Realisation Trust
NBC	National Bank of Commerce
NMC	National Milling Corporation
NUTA	National Union of Tanganyika Workers
PSRC	Parastatal Sector Reform Commission
CTI	Confederation of Tanzania Industries
SOE	State Owned Enterprise
TANESCO	Tanzania Electricity Supply Company
TCCCO	Tanzania Coffee Curing Company
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TFA	Tanganyika Farmers' Association

TABLE OF CONTENTS

I. Introduction: Business Past and Present

This report presents a profile of diversity in the Tanzanian business community. It also assesses the possible implications of that diversity for Tanzania's economic trajectory. To understand this profile, it is essential to begin with one very basic fact. Virtually every respondent we spoke with began his or her remarks by insisting upon the importance of Tanzania's recent past. Tanzania's business community, like other important segments of Tanzanian society, is in the very early stages of a recovery from the constraining effects of the statist and would-be socialist political system that governed the country from the late 1960s through the early 1980s. The memories and institutional legacy of that period continue to influence all aspects of political and economic life in Tanzania. Business is no exception.

Tanzania today presents an exquisite version of the dilemma of the glass: Half full or half empty? On the positive side, Tanzania has seen numerous improvements during the past ten years, in both its political and economic systems. Politically, Tanzania has progressed from a single party, authoritarian regime with a state-controlled media to a multi-party system with a lively and independent press. It has just held its first openly contested, multi-party elections to the office of Tanzania President, Zanzibar President, Tanzania National Assembly and Zanzibar Assembly. For individual citizens, the new sense of freedom is palpable. There is open and lively discussion of political issues and personalities and Tanzanians we met seemed willing to be completely forthcoming about their preferences of candidates and parties.

Tanzania has made substantial progress in economic reform, as well. The most conspicuous feature of the Tanzanian economy today is that many individual Tanzanians are better off materially than they were during the socialist era although many Tanzanians claim that economic reforms have widened inequalities in the country and that some members of the society have become worse off. Since accepting the necessity of a structural adjustment program in 1986, it has liberalized trade, allowed the value of its shilling to be determined by an inter-bank rate, simplified currency exchanges by creating a system of private currency exchange bureaus, and made progress in divesting its state owned enterprises (SOEs). It has permitted the creation of private commercial banks, thereby creating competition with the state-owned National Bank of Commerce and changed its political climate to welcome investment by multi-national corporations (MNCs).

Tanzania has also made particular progress in liberalizing the largest sector of its economy, agriculture. Primary cooperative societies, which were banned in 1975, and then permitted to operate under tightly controlled conditions, have now been fully restored to autonomous status. Farmers have been given unprecedented freedom of choice and can now sell their products either to private traders or to their primary crop cooperatives. The single channel state monopoly system is an institution of the past. Prices of farm products have been decontrolled at both the farmgate and retail levels, and the government's parastatal crop authorities have had their economic role progressively reduced from a monopoly of procurement, processing and marketing to the point where their functions are largely advisory and regulatory.

On the negative (half empty) side, it is clear that much remains to be done both politically and economically if Tanzania is to become a truly democratic political system with a market-determined economy. Its recent multi-party election has been widely criticized as unfair by both international and domestic observers, some of whom consider that the election was so poorly administered that opposition charges of extensive rigging seem highly plausible. Most feel that the election of the President of Zanzibar was blatantly rigged in favor of the governing party, the CCM (Revolutionary Party). Despite a freer press, the government continues to have a decisively stronger media presence than the opposition through its ownership of Radio Tanzania and many Tanzanians stated that the government's radio broadcasts were unfairly favorable to the CCM. And, importantly, a number of repressive laws remain on the books. These laws, identified by a judicial commission as "the 40 oppressive laws" include the Preventive Detention Law, which allows the government to detain political opponents without specification of charges, and the Newspaper Act of 1976, which includes a very broad definition of sedition.[1] No small part of the chilling effect these laws continue to exert on Tanzanian politics has to do with the government's reluctance to repeal them.

Additional economic reforms are also urgently needed. There is compelling evidence that the past several years has been a period of corruption of such proportions that the revenue basis of the government has been badly eroded, causing a severe fiscal crisis. Representatives of the manufacturing sector constantly complain that corruption in the customs bureaucracy is so extensive that Tanzania is, for all practical purposes, a duty-free zone. And some industries, including private ones, have closed due to the flood of goods that have escaped the imposition of tariffs. Progress in the privatization of SOEs has been painfully slow. The government has just begun the monumental task of reforming the financial sector, especially its ill-managed and

[1] The government recently used the latter act to press sedition charges against an opposition newspaper. See The Guardian (Dar es Salaam), November 15, 1995.

hugely indebted National Bank of Commerce (NBC). And despite the substantial number of official economic reforms, administrative implementation of the new economic environment has been so sluggish that Tanzania's rate of economic growth is still only slightly higher that its rate of population increase. At 4-5 percent, it is far lower than would be possible in a freer and more dynamic economy.

Tanzania's business community reflects this potpourri of positive and negative aspects. It is both dramatically freer than it was ten years ago but less free than it needs to be to make an independent contribution to the country's political and economic progress. Individual entrepreneurs are rushing to take advantage of the economic liberalization but consider that Tanzania nevertheless remains a difficult and high risk economic environment. There are boom conditions in some areas of the economy such as construction, certain export crops such as cotton and cashews (but not coffee), and the informal trading sector but many Tanzanians are apprehensive that the incoming government may backslide toward the controlled economic conditions that did the country so much harm in the past.

That the Tanzanian private sector survived at all during the socialist period is a testimony to its resiliency and to the spirit of entrepreneurialism among the Tanzanian people. If the Tanzanian business community today appears misshapen with an over emphasis on trade at the expense of productive activity, overly interested in short-term, low-risk activities at the expense of investment in slow maturing assets, and still suspicious of the government's long-term intentions, these characteristics must be understood in historical context. Mistrust of the government's intentions undoubtedly explains why Tanzania has experienced significant capital flight during the past two years: as the multi-party election approached, and it began to seem uncertain which party and group of leaders would govern the country, old insecurities resurfaced. Also to be understood in historical context is the fact that many members of the business community continue to use hedging strategies that permit them to keep a certain proportion of their financial assets overseas, while bringing into Tanzania only those financial resources necessary at a given moment.

The few private firms that survived the socialist era had an important political characteristic in common; namely, an ability to hunker down and develop survival strategies to cope with an omnipresent state. The skills they developed were largely political in character and involved establishing close relationships with leading politicians in order to obtain import licenses and gain business contracts with government agencies and state-owned firms. This may help explain the political behavior of large portions of the Tanzanian business community, especially its unflagging support for the governing party.

The Darwinian process underway in the business sector today is an unusual one. In a mature industrial economy, businesses succeed and fail but the basis of success or failure remains a constant, the ability to operate efficiently and profitably. But in an economy like Tanzania's, where a socialist economic approach is rapidly giving way to market-based economic principles, the basis of survival itself is in a state of change. Survival skills that were indispensable during the period of state regulation are very different than those that permit a business to flourish in an unregulated and competitive milieu. The former requires political adaptability, an ability to accommodate state authority; the latter, an ability to deal with economic risk.

One of the more arresting features of the Tanzanian business community today is the generational divide. Older businesses that survived through their political adroitness continue to view this skill as the key to their survival in the new era. But as the Tanzanian business environment moves in a more and more liberal direction, a newer generation of businesses is taking its place in the sun. Their skills have to do more with ability to assess risk and find ways of profitability in a more and more competitive marketplace. The new generation is more acclimated to openness and competition than to governmental guarantees, contracts and protection.

Tanzania's unhappy past is a memory that creates attitudes and strategies of watchfulness throughout the business community. Virtually all Tanzanian business entrepreneurs recall personally the government's efforts to suppress private sector initiative. Many handle these memories with economic strategies that involve maintaining assets overseas as well as investments in the country.

If all were well in Tanzania, the outcome of the reform process presently underway would be a "virtuous cycle", one in which political and economic reforms reinforce one another to produce greater and greater progress in both areas. In a virtuous cycle, economic liberalization contributes to political pluralism (civil society) by creating the space for new economic actors including business and social groups based in the private sector to assume their place in the sun. As the business community and other new social interests establish a distinct presence in Tanzania's party system, this, in turn, should make for further progress in the economic reform process. For the business community would be in a stronger position to pressure the state for the economic reforms that are urgently needed if Tanzania's economy is to continue to grow.

Not all is well in Tanzania, however. In economic terms, Tanzania's business community is benefitting from a favorable "externality." That is, it is the beneficiary of an economic environment it had little or no role in creating. Without continuing pressure from the donor community, this environment could once again deteriorate; it may even with such external pressure. Many Tanzanians feel that their country is at a political and economic crossroads and that its future possibilities include a return to a politically determined -- rather than market determined -- allocation of economic resources.

The need for external pressure to maintain a liberalizing momentum during this transition stage creates a compelling argument for policy pressure by external donor organizations such as USAID. The policy implication for Tanzania's donors is unmistakable: first and foremost, maintain a presence. Use that presence to sustain the economic liberality and this will help to sustain the democracy; sustain the democracy and the process of economic reform is better assured. The history of reform in Tanzania thus far affirms this relationship.

A snapshot of Tanzania in late 1995 suggested that the country was at a crossroads, with at least two possible future scenarios. One scenario pointed in the direction of putting the reform process back on track. The reasoning behind this prognosis is that the election of 1995, with all its deficiencies, represented a significant milestone in that it resulted in the replacement of an aging regime, whose reformist energies had clearly waned, with a new one, whose reform energies will be higher. In this perspective, the inauguration of a new government will usher in a renewed impetus to the economic liberalization.

The second scenario was one in which the old statist tendencies of the CCM reasserted themselves beneath the surface of an economic reform process. In this prognosis, the old tendencies toward the political allocation of resources will once again come to the fore and the new business elites, whose rise has been based upon their skills in an open market economy but whose political position may still be precarious, will be eclipsed by the old ones whose prominence is based on their patron-client ties to key decision makers.

Which scenario prevails will depend heavily upon the commitment to reform of Tanzania's newly elected leaders and their ability to implement a reform program. Some members of the business community express confidence that economic conditions will improve once the new government has had an opportunity to establish itself. They believe that the political skills of the new leaders will permit a resumption of the reform process. But a larger number of business leaders lack this confidence. They believe that the newly elected leaders are too closely wedded to Tanzania's past approach, too personally beholden to Nyerere himself, and too deeply involved in patron-client politics that will stall any significant effort at further liberalization.

IV. Shortcomings of the Tanzanian Business Environment

Despite economic reforms that have breathed renewed life into Tanzania's private economy, the country's business environment continues to demonstrate critical shortcomings. As a result, private business has grown slowly, and most business entrepreneurs still consider Tanzania a difficult and high-risk environment.

Members of the business community do not generally feel that democratic politics has strengthened their ability to influence the government to their benefit. As a result, they are either indifferent to democratic politics or apprehensive about it. When democracy asserted itself boldly, as in the recent election, many members of the business community became deeply insecure. This insecurity took two forms: first, fear that the election might trigger social violence that would cause them personal or economic harm[2] or, second, concern that the election might lead to the empowerment of political leaders in whom they lacked confidence and with whom they lacked effective working relationships. That the election passed without either of these events taking place evoked an audible sigh of relief.

The Tanzanian business environment is not a healthy one. The difficulties of doing business profitably are numerous and varied, ranging from a bureaucracy that many consider unresponsive to woefully inadequate infrastructure. What follows is an attempt to present a partial inventory of the most important complaints Tanzanian business entrepreneurs made about their country's business environment. What is striking to us, as short-term observers, is that any one of the items on the list would be enough to discourage any but the most intrepid business entrepreneur. Taken together, they suggest that many important reforms remain on the agenda before Tanzania could be considered business-friendly.

Bureaucratic Difficulties

One of the most serious problems has to do with the interface between business and government. Numerous members of the business community complained that, despite formal policy

---

[2] Fearing riots or demonstrations, many members of the business community moved their families out of the country during the election. Numerous retail traders, fearful of looting of shops, have been reluctant to bring goods into the country. Strangely, since this lowers the demand for $ U.S., this has contributed to dollar liquidity in the banking system and a strengthening of the Tanzanian shilling against the dollar.

changes, the major portions of the government bureaucracy continue to exhibit the laxity of the socialist era.

The Tanzanian bureaucracy is also perceived as still inclined toward a statist approach to economic management. Many members of the business community are convinced that old ways and beliefs die hard and that, among the most influential Tanzanian political leaders and bureaucrats, there is an underlying preference for a return to a centrally controlled economy in which bureaucrats would once again play a central role. In this respect, the Tanzanian bureaucracy is viewed as an exception to the broad changes in attitude toward business in Tanzania. Whereas most Tanzanians now view business as vital to the future welfare of the country, bureaucrats are said to continue to view business from at standpoint of suspicion and mistrust.

This perception is partly based on the sense that Tanzanians officials have found a host of ways to frustrate the implementation of a market-based system, as when liberal technocrats are transferred from influential assignments to positions where their influence is minimized. The perception of statism is reinforced again when the government adopts a bureaucratic solution to a problem that could easily be handled through existing private sector organizations, or simply left to market forces. The sum total of all this is that many Tanzanian business persons regard the Tanzanian state as an obstacle in their path rather than an indispensable source of support and information. As a result, relationships between business and the state apparatus tend to be difficult at best, fraught with mutual suspicion and often adversarial in style. Underlying and exacerbating all of this is the fact that virtually every encounter between a business person and a bureaucrat involves some element of corruption.

Corruption

Corruption is a pervasive problem that has eaten away at the foundations of the Tanzanian political system.[3] Alexander Muganda has described the problem in the following terms:

> Bribery is the main reason for the prevalence of bureaucracy. During the past five years the problem has

---

[3] This problem has been amply documented. See Corruption in Tanzania: A Socio-Economic Analysis. A Research report submitted to the Tanzania Chamber of Commerce, Industry and Agriculture, November, 1994). Also, The United Republic of Tanzania, The National Integrity System in Tanzania: Proceedings of a Workshop Convened by the Prevention of Corruption Bureau, Tanzania (Transparency International and Economic Development Institute of the World Bank, August 1995).

> grown even worse. Before you were asked to give bribes furtively, through hints. Now you are asked for them openly; you are downright demanded to give bribes.[4]

Individual Tanzanians deal with corruption in virtually every encounter with their government. Patients have to bribe to be treated in government hospitals; parents have to bribe to enroll their children in schools, and travelers on Tanzania's roads are harassed constantly by police and soldiers seeking bribes. And business leaders insist emphatically that in their dealings with the Tanzanian polity, they encounter corruption from the very highest levels to the very lowest.

Corruption has numerous effects; most are negative. The first is that it raises the costs of doing business. Since businesses pass on their costs to consumers, corruption imposes an implicit tax on all Tanzanians. Because virtually every interaction with the government seems to require some sort of side payment to assure that necessary licenses, approvals or clearances are processed favorably, this tax is probably fairly high.

Corruption is a resource transfer from public sector institutions to Tanzania's political leaders and civil servants in their capacity as private citizens. Tanzania's school system is desperately starved for funds as are its hospitals and rural clinics. Much of the country's road system is in urgent need of repair and the improvements that are taking place are mostly donor-financed. Many rural regions seem desperately in need of basic services such as water and electricity. And the problems of the Tanzanian court system begin with the fact that it is so grossly underfunded. But numerous public officials are building expensive homes, driving expensive cars, purchasing expensive consumer goods, and investing in lucrative business activities.

That all this undoubtedly originated in the low purchasing power of public sector salaries explains the origin of the problem. It does nothing to excuse or solve it. Indeed, almost no one believes that improving public sector salaries will help reduce the problem in the short run. Members of the business community are convinced that Tanzanian politicians and bureaucrats have become so accustomed to treating their offices as sources of highly remunerative side payments that the level of salaries has become almost incidental.

Corruption spreads attitudes of cynicism among Tanzania's citizens and this poses additional economic difficulties. In an

---

[4] Alexander A. Muganda, "The Corruption Conundrum in Tanzania: Defining Its Limits and Impact," in The National Integrity System in Tanzania, p. 12.

economically healthy society, some vital functions of government depend upon the willingness of individual citizens to be law abiding. A government’s ability to collect taxes, for example, or to see to it that public property is not stolen or misused for private purposes depend upon citizen willingness to abide by the rules of a system. In Tanzania, however, corruption appears to have engendered an opposite attitude: namely, if its alright for them, its alright for us. Even if the Tanzanian government were to take immediate steps to halt corruption, it would be some time before the attitudes of mistrust that frustrate its revenue collection efforts began to abate.

The demoralizing effects of corruption are not confined to Tanzanians, but include the donor community. Members of the donor community have expressed a frustration that has come to be called "donor fatigue."[5] A number of donor organizations believe that their considerable expenditure of funds, going back over a period of many years, has produced little beneficial effect and that one of the principal reasons for this is the hemorrhage of funds through the country’s corruption networks. Some donors are convinced that a large portion of their funds may simply have gone to replace the monies that government has lost to corrupt leaders and officials. This is undoubtedly true and will probably continue since corruption on the Tanzanian scale does not lend itself to a timely cure. As a result, the donor frustration level, already high, can be expected to grow even higher.

Poor Infrastructure

Tanzanian business is further constrained by the appalling condition of the country’s infrastructure. Business spokespersons complained constantly that it was often difficult to make telephone calls within Dar es Salaam, much less between the national capital and other major cities such as Arusha, Mbeya or Mwanza. Although the road system has seen some major improvements in recent years, other aspects of the country’s physical infrastructure are in need of massive up-grading. This is especially true of its energy and water systems.[6]

Political Weakness

---

[5] The authors wish to acknowledge Diana Putman for calling our attention to the magnitude of this phenomenon in Tanzania.

[6] The electricity problem does seem to have abated with the installation of two diesel-turbine generators. A potential difficulty here is their extremely high fuel costs. At the time of our visit, there was an adequate fuel supply for only four months of operation.

One source of the business community's insecurity is its political weakness. Business leaders feel that they have little or no effective leverage over a government whose actions can spell the difference between success and failure. Ironically, economic liberalization has made some portions of the business community more dependent than ever on state action. The flood of imports unleashed by trade liberalization and poor enforcement of whatever protection remains has caused the older manufacturing sector, organized in the Confederation of Tanzanian Industries, to clamor for more effective enforcement of tariffs.[7] Although the members of this organization have access to the highest-ranking government officials, they feel powerless to affect the business environment in their favor.

This weakness may have less to do with government than with the powerful divisions of economic interests within the business community itself. There is an important split, for example, between manufacturers, who favor protection, and the mercantile sector, which has benefitted greatly from trade liberalization. These divisions are discussed in greater detail in the following section of this report, "Diversity in the Business Community." Internal divisions have made it difficult for the business community to act as a unified force.

The political weakness of the business sector may have some positive effects. It is by no means self-evident that all sections of Tanzanian business have a common interest in pressing for continued economic liberalization. Many Tanzanian businesses, not only the SOEs but a number of older, privately held firms, have a lingering preference for the old ways. These are firms that have benefitted from high levels of protection and from sole source economic relationships with the Tanzanian state. The existence of these firms is jeopardized by liberalization and, as a result, they have a powerful interest in opposing change. Their inability to do so effectively has permitted the process of reform to move ahead.

Political weakness has abetted Tanzania's process of "creative destruction." This phenomenon, described by Joseph Schumpeter nearly sixty years ago, is the basis of economic growth.[8] It involves the steady withdrawal of resources that are tied up in inefficient and outmoded forms of production so that these resources can move toward more dynamic and efficient sectors of the economy. This is precisely the sort of transformation a freer economic environment is expected to bring

---

[7] See Confederation of Tanzania Industries, A Case for Protection of Local Industries (Dar es Salaam: March, 1993).

[8] Joseph Schumpeter, Capitalism, Socialism and Democracy (Boston: 1939). See esp. ch. 7, "On Creative Destruction."

about. It is a healthy sign when older, under-capitalized enterprises have either begun to close down or seek international partners that could provide a fresh infusion of capital to make their production more competitive. It would be economically unfortunate if those businesses had enough political leverage to slow down the sort of free economic environment that brings this process about.

The Party System

A major part of the political difficulty facing the business community has to do with the nature of Tanzanian multi-partyism. Unlike more mature democracies that have multi-party systems in which the major parties are relatively balanced, Tanzania's party system is lopsided, featuring one major organization, the CCM, and a number of minor ones. The CCM has been in power since independence, is well organized relative to the others, has long established networks of patronage connections throughout the society, and is presently well financed owing to a flow of campaign contributions from the business community. This party is opposed by a number of small parties that are personalistic, organizationally weak, financially precarious, and which typically have popular support only in limited regions of the country. Although important constitutional steps have been taken to create a wall of separation between the governing party and the government, the boundaries are still not clear to many people. For many Tanzanians, especially outside Dar es Salaam, the CCM is the government and the government is the CCM.

In this environment, business has no alternative but to nurture carefully its relationships with the party that controls the state apparatus and which, in the eyes of many citizens, is indistinguishable from government itself. From a political standpoint, Tanzania exhibits a "Catch 22." Opposition parties will not become strong enough to level the playing field until they can obtain financial support from the business community. But the business community is reluctant to expend economic resources on weak organizations that have so little chance of electoral success.

Lost Organizational Skills

The Tanzanian business community has a vast agenda in rebuilding lost organizational skills. The creation of a successful business enterprise requires a host of managerial skills ranging from simple tasks such as book-keeping and equipment procurement to more demanding tasks such as tax accounting and legal handling of matters such as the entitlements of shareholders and the responsibilities of company directors.[9] Most of these skills were present in the distant past. They were lost during the period of state control and now they must be painfully re-learned.

Successful business also requires a host of supportive underlying attitudes including trust, reciprocity and mutuality. Frances Fukuyama, a scholar at the Rand Corporation, has suggested that these attitudes are at the very foundation of the development process. His recent book is an effort to prove that where these are present economic growth and political democracy can be expected; where they are absent, economic atrophy and authoritarian rule are more likely.[10]

Fukuyama's observations resonate deeply with the modern Tanzanian experience. To a very large degree, both the managerial skills and the underlying attitudes of trust were lost during the period of authoritarian socialism. Rebuilding these values will require a considerable period of time. The trust that is most lacking in Tanzania is trust in the government itself. Many members of the Tanzanian business community view the government as a predatory presence. They have little confidence that it will not, once again, seek to nationalize their assets in a lawless manner and without paying just compensation. They see government bureaucrats as economically inept and more inclined toward graft than toward the provision of a sound business habitat. And they are cynical toward a legal system that seems unable to afford them even the most minimal protection. Small wonder that so many members of the business community are oriented toward highly liquid, low risk investments that will afford short-term profit.

A Deficient Legal Environment

A defining attribute of the early transition toward business revival is the fact that much remains to be done to restructure the legal framework so as to create a strengthened enabling environment. Business requires political freedom so that it can lobby and pressure the state in its own interest without fear of reprisal; it must be free to support opposition parties and even create a critical media. But above all else, it must enjoy the benefits of a legal system in which there are laws that clearly

---

[9] One business entrepreneur told us that the principal constraint on his newly acquired sisal plantation was lack of management. He has launched a search for a plantation manager in Mozambique and South Africa.

[10] Francis Fukuyama, Trust: The Social Virtues and the Creation of Prosperity (New York: The Free Press, 1995).

spell out the rights of property in productive assets and a court system fully able to assure those rights.

This sort of legal environment does not yet exist. From a legal standpoint, Tanzania is not yet a free society, nor one with laws conducive to business activity. Many of Tanzania's "40 oppressive laws" are still on the books, creating a chilling effect on business entrepreneurs who might wish to support opposition parties or vent their frustrations in the popular press.

Business leaders also feel that they lack a legal system that provides firm grounding for business activity. Such a system would, at a minimum, include laws that clearly spell out the rights of property in productive assets, a court system able to enforce contracts in a timely manner, and a reasonable certainty that persons who commit fraud and embezzlement against them will be arrested and imprisoned. The government's tendency to drag its feet as regards the repeal of old socialist legislation and its tendency to delay the passage of laws appropriate for a market-based economic system further contribute to the difficulty of conducting business and to the perception that Tanzania's economy presents a high degree of investment risk.

The most urgent legal reform has to do with property rights. Tanzania desperately needs legislative progress in passing legislation that will define, clarify, secure and facilitate the sale of property in productive assets, especially land. The present situation is not only confusing to all those involved, but a deterrent to investment and therefore a significant cause of the country's economic doldrums.

The government's inattention to land rights does not contribute to a prudential economic environment. It sends any number of wrong signals. One is that the process of liberalization is as ill-considered as the process of nationalization was years ago. Another is that this process does not spring from an internal wellspring of liberal belief on the part of political leaders, but, rather, from the economic leverage of the donor community. And still another signal is that political leaders have not entirely ruled out a return to the old practices.

The growth penalty of all this is considerable. Without a legal system that clarifies and enforces title to property, the market in real property, which could be one of the most important contributors to economic growth, will remain stunted. Other reforms are just as important. Until the legal system has been developed to the point where contracts can be enforced in court, to the point where perpetrators of business fraud can be arrested and tried, and to the point where judges feel free to be neutral as between the interests of the state and the interests of the business sector, Tanzania will continue to be perceived as a high risk environment.

Credit, Liquidity and Interest Rates

Next to the poor legal environment, the business community's most frequent complaint has to do with the difficulty of obtaining credit and with Tanzania Shilling (TShs) borrowing interest rates that vary between 40 percent and 50 percent. Since Tanzania's inflation rate is generally estimated at about 30 percent, these seemingly high nominal interest rates convert into real interest rates of only about 10 percent or slightly more. Given the riskiness of Tanzania's business environment, this is not unreasonable. But high nominal rates, by themselves, are a psychological deterrent because inflation makes the business environment feel unpredictable. Many business owners feel that they cannot earn a profit on money that is borrowed at that rate and, as a result, they do not bother to apply for loans.

The interest rate problem has several different facets. The first has to do with inflation. Although Tanzania's inflation rate is not high by comparison with the hyper-inflation experienced in the past by a number of Latin American countries, it is still worrisome. Since inflation is caused by central government budget deficits, it sends another negative signal to the business community; namely that the government is unwilling or unable to create a more favorable economic environment by imposing fiscal discipline upon itself.

The second aspect of the interest rate problem has to do with the tendency of government borrowing from the banking system to "crowd out" private borrowing. Several private bankers we spoke with indicated their strong preference for holding government bonds over lending to the private business community. This is wholly understandable. Government bonds pay in the range of to 50 percent interest, can be acquired without the high 40 percent transaction costs associated with lending to private businesses, and are relatively secure in comparison to loans to private firms. If the private banks were willing to lend to small private businesses, the interest rate on government bonds would establish the baseline over which independent businesses would have to pay a risk premium.

The economic logjam, again, is caused by the behavior of government. Until the Tanzanian government curbs its fiscal deficits, it will not lower the inflation rate. Until it lowers the inflation rate, it will be required to pay high interest rates on government bonds. And so long as these bonds are available, they will crowd out borrowers seeking loans for productive enterprise.

This problem is further compounded by the liquidity problems of the Tanzanian banking system, especially those of Tanzania's state-owned commercial bank, the National Bank of Commerce (NBC), which has always been the lender of first resort to indigenous enterprise. The NBC is presently insolvent because it holds so many of the debts of the bankrupt SOEs. Tanzania's private banks are reluctant to lend to Tanzanian business enterprises because they prefer to hold government bonds or to make loans to multinational firms with solid credit histories.

There is one major exception. Tanzania's private banks have begun to make pre-export loans for certain of the country's major cash crops, cashews and cotton. Indeed, the ready availability of private credit for these two commodities may help explain why they are enjoying boom conditions while coffee is not. The critical difference between the cotton and cashew industries, on the one hand, and coffee, on the other, is structural. In the former, regional cooperative societies which buy from producers and from primary cooperative societies can export directly to international markets. They are thus in a position to obligate the proceeds from international sales as collateral for a loan to help finance production and harvesting. The banks are secure because they can arrange to have the payment for the crop deposited directly to a collection account either in Tanzania or overseas.

The coffee industry is structured differently. Here, the government insists that the entire crop pass through the bi-weekly coffee auction at Moshi. Neither the regional cooperatives nor private buyers who purchase from farmers are allowed to export directly.[11] They are thus not in a position to obligate the proceeds from international sales. Since the international exporter may be different than the regional cooperative society which is expected to assist in the production process, bank loans whose purpose is to help with pre-sales costs are not feasible.

The government could solve this problem by simply making the auction optional rather than required. Exactly why it continues to insist on the auction monopoly of sales for coffee while allowing direct exportation of other crops is unclear. The official justification is to see to it that farmers obtain the highest possible realization from sales. But this has not prevented a widening of sales options in the other industries.

---

[11] Tanzania has two sets of licensed coffee buyers. One group of buyers is authorized to purchase from farmer or cooperative societies. The other is licensed to purchase coffee at the auction. Although there is some overlap between the two groups, the qualifications are different. To be licensed to buy at the auction, for example, a buying firm must show that has a certified liquorer.

The movement of the private banks into export financing is the seed of Tanzania's economic future. It can be expected to grow considerably in the years to come. What is so striking about the cashew and cotton examples was the ease with which the liquidity problem was solved. It simply required a policy reform that made it legally possible to have secure collateral for pre-production loans; in this case, a binding title to the proceeds from an international crop sale. If this problem could be addressed in other sectors of the Tanzanian economy, it would do much to ameliorate the credit crisis there as well.

The growing role of the private banks in providing agricultural sector finance casts doubt on the very notion of a broad liquidity crisis. So do several other features of the economy. One is the strength of the Tanzania shilling. Tanzania appears to be highly liquid in U.S. dollars, so liquid in fact that the Shilling/Dollar exchange rate has remained stable for about a year despite Tanzania's problem of inflation. A second is that the supply of shillings seems sufficiently abundant to finance booming growth in the construction sector as well as in formal and informal sector trading activity, not to mention tourism and certain exports.

Tanzania's liquidity difficulty may be more accurately viewed as a combination of high interest rates, the "crowding out" of private borrowers by government bonds, and a legal system that continues to make it difficult for prospective borrowers to establish solid collateral for loans.

The insolvency of the NBC is only one piece, albeit a significant one, of the credit shortage puzzle. Until this puzzle is solved, however, the NBC will undoubtedly remain the most important lender to the Tanzanian business community. But the NBC is in severe administrative disarray. Like so many state enterprises in Tanzania, it is overstaffed, suffers from poor to non-existent record-keeping, and has been the scene of flagrant mismanagement and corruption. Despite its many and severe shortcomings, the NBC is still Tanzania's most important commercial bank. It accounts for approximately 80 percent of loans to business enterprise within Tanzania and about 75 percent of bank deposits. It is a genuinely national bank with branches throughout the country; its personnel are familiar with Tanzanian business and especially the agricultural and indigenous productive sectors; and, in sheer scale, it continues to overshadow the new private banks which are only just beginning to establish themselves.

The lesson is clear: for the time being at least, an important part of the problem of credit for Tanzanian business rests with the National Bank of Commerce. The Government of Tanzania has undertaken several steps to deal with the NBC's problems. But thus far these do not appear to have been adequate to the task at hand. Even if all goes well, the process of reforming the NBC can be expected to take several years. Until the NBC's reorganization is complete, however, Tanzanian business, especially small indigenous businesses that do not have other credit sources, can be expected to suffer from an on-going credit constraint.

Continuing the NBC reforms will require an act of powerful political will on the part of Tanzania's incoming government, that of newly elected President Benjamin Mkapa. Technical solutions and structural reform are essential and helpful. But no amount of downsizing, whether of staff or redundant branches, will stop the flow of poor, politically based loans unless the new government is genuine in its intention to eliminate corruption in the NBC's operations.

A host of political questions therefore must remain presently unanswered. But these basically reduce to one. Will the newly elected government put the economic reform process back on track? Or will it lapse gradually toward the old style of economic management, a politically determined allocation of economic resources. Tanzanians, donors, and international and domestic business investors are presently awaiting answers to these questions.

V. Diversity in the Tanzanian Business Community

The best point of departure for understanding diversity within the Tanzanian business community today is to understand that the business environment is a dynamic one in which dramatic changes are taking place. The government's economic reforms, which have included restrictions on budget subsidies to the SOEs have been partially effective, resulting in the closure of a number of SOEs. Some of these have been successfully divested and privatized; others, not. Those that have not found investors lie in a derelict state, ghostly relics of a past era.

The significance of this process is that the market niche these SOEs once occupied in the economy is now vacant. It is being taken over by new private enterprises or by imported goods. Many respondents to our study complained about the slow pace of privatization in Tanzania. Their complaints are correct but miss a vital point. It is essential to distinguish between the closure of an enterprise and its privatization. From an economic standpoint, the closure of an inefficient enterprise is a step forward even if it is not purchased by someone who intends to keep it in production.

A major requisite of a growing economy is that it be able to withdraw economic resources from inefficient uses so that these may be employed more productively elsewhere in the economy. During the past 18 months, the Tanzanian economy has demonstrated that this process is well underway. An economy that is moving from sickness to health can exhibit symptoms of deepening illness during the early stages of its recovery. These might include rising unemployment and an increase in unutilized industrial capacity. It is imperative not to draw the wrong conclusions from this. These phenomena are not only healthy but essential if they arise from the closure of inefficient, under-capitalized industries that previously survived on the basis of government subsidies and protection.

The second element of change in the Tanzanian economy is that despite the country's difficult business environment, new productive enterprises are springing up. There are new factories producing shoes, plastic products, plastic shipping bags, and a host of other consumer items. Some of Tanzania's older enterprises, both privately owned and SOEs, are in the process of taking on international partners who have invested in up-grading production facilities or intend to do so. Tanzania's beer, cigarette and soap industries are examples. The installation of new productive facilities extends to the agricultural sector as well. Despite stagnation in the volume of coffee production, new, privately owned coffee curing plants are in operation in Arusha and Bukoba. There are new cotton ginneries in Mwanza. And even the most casual traveler from Dar es Salaam to Arusha can confirm that sisal and coffee plantations are being rehabilitated.

Some of the more salient characteristics of Tanzania’s business sector today can be summarized as follows:

- internal divisions that prevent business from speaking with a single voice, the major divisions being those between old and new style businesses, between trading and manufacturing interests and, to some degree, between business entrepreneurs of indigenous descent and those of Indo-Pakistani descent (Asians).

- a perception on the part of manufacturers that traders have successfully corrupted the political system to allow the unlimited and unregulated importation of goods that compete with and economically undermine local manufacturing.

- the absence of a sense that the economic well being of the business sector can be improved by greater democratization of the political system. Business leaders see their most effective contacts with government as being through informal, extra-institutional channels.

Old Versus New Enterprises

This first division of importance within the Tanzanian business community is that between the old and the new. Some private businesses not only survived during the socialist era but managed to thrive. They did so, however, principally on the basis of political connections that made it possible to obtain loans from the banking system (that were often not repaid), protection from foreign competition, subsidized inputs, and lucrative sub-contracts with government corporations and ministries.

In a number of respects, the older companies that survived the socialist era bore a striking resemblance to the state enterprises of the same period. The larger of these enterprises, for example, were heavily dependent upon the Tanzanian state. They emerged from the socialist era burdened by huge debts to the banking system, had production facilities that were so inefficient as to be uncompetitive in a liberalized trade environment, and were wholly lacking the capital liquidity necessary to modernize aging plant.

A second similarity has to do with product inventory. The list of products of the older private firms includes consumer non-durable products such as soaps, toothpaste and shampoo; household goods such as cleansers, kitchen utensils, plastic dinnerware and cleaning equipment; and paper and stationary products including ball point pens, napkins and toilet paper; and beverages including soft drinks. As any economist could attest, these are goods in which Tanzania has a very low comparative advantage. Their production is dependent almost entirely on expensive imported inputs and given Tanzania's high labor costs (relative to labor productivity), industries based on the production of these items would normally have little chance of survival under a more open trade regime. Small wonder that the older private firms have form an organization, the Confederation of Tanzania Industries (CTI), whose principal agenda has been to seek protection from import competition.[12]

During the socialist era, then, the state and private enterprises had many common characteristics. Their differing legal form of ownership was far less important than the fact that both required the high barriers to imports that the government erected. Some private businesses were able to squeeze into the closed market niche the government created for its own SOEs and, through close personal connections with government leaders, they were able to maintain a share of the market within this niche. Once trade protection was removed during the present era of reform, both state and private enterprises alike began to suffer from the flood of imports.

The commonality of experience during liberalization is also striking. State enterprises based on import substitution have gone bankrupt and a number of older private firms have also been unable to repay their debts to the banking system. SOEs and older private firms alike have been unable to raise sufficient capital to modernize plant facilities to deal with import competition. As a result, both state and private firms have eagerly joined with foreign partners. Tanzania Breweries, an SOE, has formed a partnership with a privately owned South African brewery to so that it can compete with the imports of high quality European beers. Tanzania Cigarette Company, though nominally a profitable parastatal, has found itself struggling with competition from imported cigarettes and has formed an alliance with R. J. Reynolds Co. to modernize its antiquated plant. And portions of IPP, a privately held company, have been sold to Colgate Palmolive, which plans to modernize IPP factories so that its soaps, shampoos and toothpaste can compete more effectively with imported products.

The new private industries that are beginning to take root in Tanzania bear a superficial resemblance to the old ones in that they are privately held and may happen to produce the same

---

[12] One of our informants continually referred to the members of CTI as parastatals even though they are nominally privately held firms. This was of course technically incorrect but very revealing. Another respondent, with considerable passion, made the disparaging point that the head of IPP is simply not a capitalist entrepreneur.

mix of products. Beyond that, any resemblance ceases and the differences become far more striking. The first difference is that the new firms have typically been capitalized outside the Tanzanian banking system and thus have no indebtedness to the NBC. Second, they have taken root during an era of trade liberalization and thrive in an internationally competitive environment. And, third, they are far less dependent upon the Tanzanian state. Although they have to deal with the government for such requisites as permits, licenses, land leases and tax payments, they do not depend upon state for protection, loans or government contracts.

The difference between old and new business enterprises has little to do with economic function. The new industries choose their product mix from substantially the same list as the old ones; that is, the consumer non-durables including plastic products, soaps, beverages, paper products, shoes, etc.. But, in contrast to the older firms producing these products, the new ones are financially solvent, able to draw on foreign as well as domestic capital sources, and are acclimated to the competitive pressures that global trade has induced. One of these firms, which is constructing a new factory to manufacture plastic packaging, has imported its machinery from India and Italy, has capital resources in the United States, Italy and Canada, and, unlike the older firms which are wholly oriented toward Tanzania, anticipates further capital investments in other African countries such as Mozambique.

The final difference is in political orientation. Whereas the leaders of the old firms are perfectly comfortable in the Tanzanian political setting, and often aspire to higher political office within Tanzania, the leaders of the new firms see themselves in more global terms, as holders of business assets in a wide variety of countries, in all of which they are equally comfortable and at home.

Asian Versus Indigenous Enterprise

Within Tanzania there is a perception that the manufacturer/trader cleavage has racial dimensions. To deal with this matter, it is best to begin with this perception in its crudest and most vulgar form. The racial stereotype of Asians holds that Asians monopolize the Tanzanian trading and merchandizing communities; that they engage in illegal and unscrupulous business practices in order to make short-term profits, portions of which they squirrel away in overseas banks; that in doing so they have contributed greatly to the problem of corruption in the Tanzanian bureaucracy; and that their ties of kith and kin to India, the United Kingdom, and elsewhere give Asian businesses an unfair economic advantage such as the opportunity to borrow capital from family firms at low interest rates.

An integral part of this perception is the notion that Asians are more interested in maximizing their short-term personal wealth than the welfare of Tanzanian Africans and, as a result, that they do not invest in slow-maturing, fixed assets but keep their wealth in trading ventures where large profits can be earned quickly.

To deal with this stereotype, several important points need to be made. First, racial bigotry in this extreme form is becoming rarer. This could not have been said as recently as two to three years ago when one of Tanzania’s new political movements, headed by a populist figure who exploited racial fears, seemed to be riding a wave of surging popularity. This movement has since declined, indicating the limited appeal of anti-Asian views to many Tanzanians. A Tanzanian political scientist explained the decline of this movement by saying simply "this (race baiting) was not Tanzanian."

His point, that Tanzanian political culture does not provide a hospitable environment for racial intolerance, should be given much credence. The governing party has consistently refused to make race an issue in Tanzanian politics, has always presented itself to the Tanzanian electorate as a multi-racial organization, and has, on a number of occasions, successfully nominated Asian candidates in African constituencies. Indeed, the CCM has used whatever moral credibility it possesses to create a non-racial political climate in which the overriding identity is Tanzanian nationality.

Tanzania’s culture of racial tolerance has been further abetted by awareness of the political violence that has arisen from ethnic politics in surrounding countries such as Rwanda, Burundi, Uganda and, increasingly, Kenya. Tanzanians of all races are emphatic that they do not want this to happen here. Indeed, the majority of Tanzanians we spoke with had subtle and complex views on the racial issue. Several respondents insisted that race was simply not an appropriate or productive way to approach an understanding of Tanzanian business. As a result of our conversations, we became convinced that racially cross-cutting economic categories -- old versus new enterprises, trading versus manufacturing, informal versus formal sectors -- provide a more illuminating way to construct a profile of diversity in Tanzania’s business sector.

One recurrent theme in these interviews was indigenous Tanzanians’ willingness to acknowledge that Asians had been traumatized repeatedly in the past; as when their plantations and farms were nationalized in 1971; when their commercial real estate assets were nationalized in 1972; and, in 1983, when many members of the community were arrested and imprisoned during the "anti-saboteurs" campaign. A number of Africans told us that if there is a tendency for Asians to prefer highly liquid trade ventures over investments in fixed assets, this needs to be understood in the context of their past traumas.

A number of Tanzanians also stressed that the simplified stereotype of Asians avoiding investments in fixed assets is simply untrue. Some Tanzanians are deeply aware that many members of the Asian community have invested heavily in factories and plantations, and that some of the largest Asian firms are highly diversified conglomerates which include a combination of trade and productive ventures.

Members of the Asian community are, of course, aware of the racial issue and extremely sensitive to it. Any number went out of their way to prove their willingness to invest in fixed assets such as factories and plantations. One member of the Asian community took us on a personal tour of several factories in which he has invested several million U. S. dollars. Its products have been so popular with Tanzanian consumers that he is presently enlarging its capacity and adding an adjacent factory to produce plastic products for household and industrial use. His second plant, still under construction, will produce plastic bags for packaging grains. Together, both factories will employ nearly a thousand workers. The fact of the matter is that the stereotype of Asians as unwilling to invest in fixed assets is simply untrue. A growing number of Tanzanians are aware of that fact and of its importance to the Tanzanian economy. Their awareness is helping to diminish the racial myth.

Members of the Asian community are especially sensitive to allegations of corruption. Nevertheless, practically all of our Asian respondents acknowledged that it is a problem, at least to the degree that their community has its share of bad actors just as any other community does. Some articulated a distinction between the "honest many", who have a fundamental concern for Tanzania and its long-term development, would prefer to avoid corruption and have taken steps to reduce it, and the "dishonest few" whose conduct gives the community as a whole a bad name. The story of the dishonest few, as we were told it on several occasions, was that many Asians became bitter at the wave of nationalizations in the 1970s and left the country. Among those who have returned, there is said to be an angry minority who are here solely to get back, in whatever way they can, the wealth they feel was unjustly taken from them.

No one denied that there are members of the Asian community who have created corrupt ties with Tanzania’s highest ranking political leaders. But there is bitter resentment of the presumption that when an Asian pays a bribe to an African, it is the Asian community that must be held accountable. Asian business persons emphasize that corruption has become so endemic in the Tanzanian bureaucracy that it is impossible to avoid. Still others expressed deep frustration that Tanzania’s corrupt environment had forced them to diminish themselves by becoming cheats.

There is ample basis for this indignation. Business generally has no interest in a corrupt bureaucracy and prefers a political milieu in which laws are understood, enforced and obeyed by all. Such an environment is more predictable and less expensive. If an orderly environment does not exist, businesses are prepared to take their political milieu as a given and adapt to it accordingly. If it is corrupt, businesses will adapt to the corruption. One Asian entrepreneur pointed out that his firm is a multi-national conglomerate with investments in a number of courties. Only in Tanzania, he said, are side payments to corrupt officials a necessary part of doing business.

Asians are also deeply sensitive to the fact that they are lumped together as if they were a single community when in fact the cultural divisions within the Asian minority are as large as those between Asian and African Tanzanians. The misperception of Asians as a single, relatively unified community is important because it has been taken as an indication that the leaders of the "Asian community", which by the estimates of several Asian respondents is in the neighborhood of 80,000 people or 0.3 percent of the country’s current estimated population of 27 million, have somehow failed in their responsibility to discipline the behavior of the community as a whole.

In the end, the Asian issue is best viewed as a metaphor for other aspects of Tanzanian politics, especially the question of who benefits from economic reform and whether the benefits of the reform process are being shared by the vast majority of Tanzanians. This question would arise even if there were no Asian minority in Tanzania. But since Asians are highly visible in retail trade, especially in the major cities, the possibility that they have fared better in Tanzania’s new economic environment does pose a potential problem. If economic reform does not go well, and Africans at lower levels of the socio-economic begin to feel that they have not shared in the benefits of reform, the desirability of the adjustment process may be called into question.

Foreign Investment in Tanzania

Another major, and rapidly growing, source of diversity in the Tanzanian business community comes from foreign investment in the economy. It is potentially very important economically and risky politically. Deeply rooted in the country’s psyche is a mistrust, if not downright fear of foreign especially multinational business. In a speech on May Day 1995, former President Nyerere attacked the Mwinyi government for its corruption and for selling out to the IMF and the World Bank, especially via privatization. He noted, "Why do they want us not to have our own industry? They want us to keep selling raw cotton and coffee for the rest of our lives."[13] Some of these fears may be allayed by various schemes to broaden the equity base of privatized firms. The Parastatal Sector Reform Commission is working on several possibilities. But the overall trend is toward greater and greater involvement of international capital in the Tanzanian economy.

This aspect of Tanzania's increasing business diversity is being driven by the slow and uneven liberalization of the economic framework, especially privatization, and the prospects for profitable investment, particularly in minerals, agricultural sector processing, services, and tourism. In regard to the minerals sector, one foreign banker told us "Its like Australia before the boom." Foreign investment may bring much needed dynamism to the economy. There is risk, however, for external investors as they move into the same unevenly hospitable business climate faced by the Asian community, including some of the same political risks.

It is too early to get a clear picture of external investment in the economy, but the diversity is striking. The banking sector has opened up rapidly in the last two years with the arrival of a number of major international banks such as Citibank, Standard Chartered Bank Tanzania Ltd., Standard Bank of South Africa (T) Ltd., a Belgian-led bank, the Eurafrican Bank, and the Kenya Trust Bank. In all, seven new banks have been opened since 1991 and the applications of several others, including Greenland Bank of Uganda are pending.[14] With the unfortunate collapse of Meridien Bank and its acquisition by Stanbic Bank, itself a result of Standard Chartered's withdrawal from South Africa during the apartheid period, the perception of foreign investors as quick rip off artists may have been reinforced; the Bank of Tanzania had to assume $120 million of the loss from the Meridien collapse.

Two major U.S. multinationals have moved into Tanzania via their South African subsidiaries -- Coca Cola and R. J. Reynolds, both as a result of privatization. South Korean investors have entered the textile sector in a joint venture, allegedly as a base for export into the U.S. market. British, Italian, Irish and other capital has also established a presence in the economy. In addition, quite diverse forms of external investment have entered via equity sharing and management contracts. In an incident that illustrates the diversity of foreign capital, an uproar was created when a Kuwaiti prince, using one of his London-based

---

[13] Economist Intelligence Unit, Tanzania Country Report, No. 2, 1995. (London, 1995).

[14] The East African, November 20-26, 1995, p. 17.

firms, received what was considered to be too good a deal on nine parastatals in return for $60 million to build a new national stadium.

Two sources of investment in particular may pose political problems in the future -- investment from South Africa and Kenya. The first plays on fears about the dominance of the white business community in South Africa, even under a Mandela government which has instantly rendered such investment "legitimate." South African capital has long had a clear understanding of where profitable investment opportunities lie in the economy. De Beers, for example, has long awaited the right political conditions to invest in Tanzania’s minerals sector, for example. In the July 1995 International Trade Fair in Dar es Salaam, 12 South African companies were represented. South African Breweries has already established a position in beer production; the Protea Hotel chain, in tourism; and South African Airways has established a presence in Tanzania’s long under-served transportation sector with a joint-venture airline called Alliance.

During 1994, $52 million in South African imports entered Tanzania via legal recorded channels, accounting for four percent of total imports. Both these figures are likely to grow rapidly. In part, this is due to the fact that a number of major multinationals are now entering the Tanzanian economy via their South African subsidiaries. The new newspaper, The East African, has called this whose process "the South Africanization of the Tanzanian economy."[15]

The second source of investment plays on fears about Kenyan dominance in the economy that remain quite vivid despite the many years that have elapsed since the breakup of the East African Community. Agricultural buying and processing firms are moving in such as the Dorman Company and Taylor Winch. Dorman has just opened a small and highly efficient coffee curing plant in Moshi, in direct competition with an aging parastatal plant, the Tanzania Coffee Curing Company (TCCCO).

The Asian factor weaves its way in and out of foreign investment in Tanzania. Much of Kenyan investment, for example, may be perceived to be Asian, such as Kenya Trust Bank. India has also become a major importer of Tanzanian cashews, operating principally through local Asian buyers. In short, both South African and Kenyan groups may be seen as lurching ahead, while indigenous Tanzanian firms lag way behind. Hence, many of the points made in the previous section about the Asian business community also hold for foreign capital interested in Tanzania.

---

[15] Quoted in Economist Intelligence Unit, Tanzania Country Report, No. 3, 1995 (London, 1995).

Foreign investors may begin to encounter similar attitudes of suspicion and mistrust and, hence, confront the same difficulties in doing business in the country as the Asians have.

Formal Versus Informal Sector Enterprise

The political role of Tanzanian business is further limited by other important aspects of diversity. One has to do with the division between the formal and informal, or parallel, sectors. Liberalization of the economy has made this division even more salient than it was in the past. The exact distinction between formal and informal enterprise has been the subject of much academic discussion but precise definitions of the difference remain elusive. In general, formal enterprises can be said to be those that operate within the framework laid down by the government. They obtain licenses, maintain relatively systematic records of their transactions and pay (some) taxes. Formal sector enterprises may be large or small depending upon their economic activity but all operate under the penumbra of governmental supervision and oversight. Informal enterprises are those that operate outside this penumbra and generally do not deal with the government bureaucracy on matters such as licensing or the tax system; they are typically small scale and their record keeping is at best desultory. One working definition of informal sector enterprises is that they are businesses without fixed walls.

Formal and informal businesses have very different political agendas. Formal enterprises have much greater interest in improving the quality of government which, officially, they pay for through their taxes. They look to government, for example, for the improvement of physical infrastructure and they are more dependent upon government services including publicly provided "utilities" such as water, electricity and postal and telephone. Formal sector entrepreneurs also have a stake in improvement of the judicial system, especially as regards its capacity to protect property rights in productive assets, adjudicate business disputes and enforce contracts.

Informal sector enterprises tend to be more indifferent to these considerations and more concerned with the prospect of government as a potentially negative constraint on their activity, as when government bureaucracies seek to enforce licensing requirements, collect taxes, impose labor regulations or implement environmental and zoning restrictions. The politics of the informal sector are, therefore, strikingly different. One of our respondents suggested that the urban, informal sector petty traders provide much of the social energy and dynamism for the opposition parties and, indeed, informal sector entrepreneurs are those who pack opposition rallies. These same entrepreneurs, however, do not provide financial support for the opposition parties.

Finally, the size of the informal sector is a controversial issue. But what is clear is that, depending upon one's definition, it could easily rival or surpass the formal sector in scale. If all activities outside governmental regulations are included, such as cross-border smuggling of minerals and agricultural commodities, the drug trade and unreported earnings from labor migration, then the informal sector GDP is in all probability considerably greater than that of formal sector gross domestic product (GDP). This fact makes it extremely difficult to estimate Tanzania's actual GDP and its real GDP per capita. One economist, who has been a long time observer of the Tanzanian economy, estimates the real size of this economy as being at least twice as great as currently available figures suggest. He places the real growth rate of the Tanzanian economy at over 6 percent per annum.

The Gender Gap

Another critical division within the Tanzanian business community has to do with gender. Business enterprise in Tanzania exhibits a glass ceiling that has imposed the most formidable barriers to upward mobility by women. Business enterprises of almost any scale, whether in trade, merchandising or manufacturing are owned and/or managed almost exclusively by male Tanzanians. Women entrepreneurs are to be found almost exclusively in small scale, informal sector enterprises, both manufacturing and retailing. Although some women own manufacturing firms employing up to thirty employees, this is considered very rare and female-owned firms of a dozen or less employees are more common. One respondent claimed that women's participation in business must be regarded almost entirely as a "survival strategy" in the difficult economic circumstances that have come about during economic reform. And within a context in which all Tanzanian-owned enterprises suffer from a credit constraint, female-owned firms appear to suffer from a worse one.

The glass ceiling extends to government employment itself. Tanzanian women are under-represented in the cabinet and the National Assembly. Although the Tanzanian government has undertaken some programs to benefit female-owned businesses, and indeed has a Ministry that houses women's affairs, it turned out that its programs were almost all funded by donors. When donor funds that finance projects that benefit women stop, the government's programs stop as well. When women are employed by government, it is almost exclusively in relatively low-level secretarial or technical positions while upper level managerial and administrative positions are held predominantly by males. It is not surprising that two of the most professional, competent and content women we met work for a foreign multi-national bank which valued, encouraged, and protected their talents. Women also suggest that the government has done almost nothing to stop sexual harassment in the workplace.

Though there are growing signs of a feminist consciousness in Tanzania, the government seems to have remained largely oblivious to gender inequality in the society and to the possibility that state policy could play a constructive role in ameliorating it. Male and female Tanzanians thus have occasion to view the state through entirely different prisms. For Tanzanian males, the Tanzanian state has been a silent partner in the economic supremacy of their gender and there is little indication, if any, that the emergence of competitive party politics has altered that reality. For Tanzanian females, the Tanzanian state has been a tacit participant in an all-pervasive system of inequality and subordination. Males have little interest in policy reform as regards the gender issue; females, a fundamental one.

Business and Democracy in Tanzania

"No bourgeois, no democracy." -- Barrington Moore, Jr.

Barrington Moore's famous dictum that business entrepreneurs have historically proven to be the foremost champions of democratic institutions grew out of the case studies in his classic book.[16] Moore believed that where the business community was economically strong and independent of the state, it played an essential -- indeed determinative -- role in the growth of constitutional government, representative institutions and the emergence of an independent judiciary able to protect the political and property rights of individual citizens and groups. The principle of "no taxation without representation" was one that the American revolutionaries had borrowed from the British aristocracy's successful struggle for parliamentary government during the 17th and 18th centuries.

In Moore's view, a contemporary developing country would ideally resemble England during the formative stages of its transformation from an agrarian to an industrial society. Here, a mercantile bourgeoisie championed democratic institutions in order to limit the monarchy's power to interfere with profits from the highly lucrative wool trade. Out of the collision between an absolute monarchy and rising bourgeoisie whose economic interests required a growing measure of participation and representation in the public policy process, there grew a powerful tradition of limited parliamentary government.

Tanzania, however, has always had a closer resemblance to France than to England. In the French case, the bourgeoisie was not able to function as a champion of parliamentary government.

[16] Barrington Moore, Jr., Social Origins of Democracy and Dictatorship: Lord and Peasant in the Making of the Modern World (Boston: Beacon Press, 1966).

Instead, the absolutist state was successful in imposing severe constraints on members of the aristocracy who aspired to become a nascent bourgeoisie. Because the bourgeoisie was small and dependent upon the throne for political protection and economic privilege, the commercialization of the countryside occurred in such a way as to reinforce the system of absolute authority. Constitutional democracy, when it did emerge, remained an unstable and highly intermittent form of government.[17]

As a result of the weakness of the commercial classes, France's economic development was stunted. It remained a primarily peasant-based, agricultural country until well into the nineteenth century. Its industrial revolution occurred only a century after that in Britain and even then was heavily dependent upon state intervention.

Until very recently, the Tanzanian business community has been in a political position very similar to that of early France. Business entrepreneurs did not have the autonomy to sustain a democratizing momentum. Indeed, Tanzanian business has been so dependent upon the state that it has not been among the leading forces of either the democratic or economic revolutions and its internal divisions continue to make on-going political weakness a possibility.

But the potential for a democratic role by the business community may be increasing. Two vitally important changes have taken place in the last few years. The first is the demise of older business enterprises; that is, the SOE sector and those private conglomerates that so closely resembled it. The second is the deep fiscal crisis of the Tanzanian state, caused principally by falling revenue collections on import duties. By November 1995, some key ministries were being allocated only 10-15 percent of their original budget estimates.[18]

These changes have created an implicit negotiation that could produce an increased political role for the business community and a strengthening of certain important political rights. The negotiation itself would be a straightforward one. The government urgently needs revenue to pay the salaries of civil servants, to maintain its army, and to operate essential services. The business community, especially the mercantile sector, is fully prepared to pay taxes of various kinds,

---

[17] It is worth recalling that the First French Republic lasted only 7 years (1792-1799) and the Second French Republic only four (1848-1852). Thus, in the 63 years following the revolution of 1789, there were only 11 years of constitutional democratic government.

[18] Business Times (Dar es Salaam), November 17-23, 1995.

including customs, but its interests lie in obtaining certain important guarantees in return. These include more secure rights in productive property, guarantees of minority protection, and a variety of legal safeguards including the elimination of repressive laws that could be used against the business community, as well as the elimination of corruption as a necessity of doing business.[19]

The taxes-for-reforms bargaining process could constitute the beginning of a sustainable democratic pattern. If it takes place, Tanzania will bear a closer resemblance to post-medieval England than to pre-revolutionary France. There are certain striking resemblances. Among them is the fact that the British merchant class that negotiated a democratic bargain with the monarchy was culturally different from the majority in British society. After the 11th century, the British aristocracy had been predominantly French, not Anglo-Saxon; and spoke a language that was principally Latino-French, not a vernacular Saxon language.

Perhaps most striking, though, is the fact that enduring democracies have rarely been built by movements inspired by democratic values in the abstract. They have come about as a result of the fact that rising economic interests had to institutionalize certain economic rights. In the course of doing so, they laid the foundation of democratic institutions.

[19] Among these would be the Deportation Ordinance (amended 1991), the Expulsion of Undersirables Ordinance and the Economic and Organized Control Act of 1984.

SUPPLEMENTAL ANNEX

to

DIVERSITY IN THE TANZANIAN BUSINESS COMMUNITY

SUBMITTED TO USAID MISSION,

DAR ES SALAAM, TANZANIA

by

Michael F. Lofchie
Department of Political Science
University of California, Los Angeles

USAID/T Purchase Order # 621-0521-P-00-6073

March 23, 1996

EXECUTIVE SUMMARY

The purpose of this Annex is to supplement the November report on Diversity in the Tanzanian Business Community and to re-examine certain of the issues it raised, responding to comments on that document. It addresses the issue of continuity and change during the first months of the government of newly elected President Benjamin Mkapa and provides additional detail on some important aspects of economic reform.

Continuities

The most important continuity is the persistence of an older, statist political value system that pre-dates the government's shift toward a market-based economy. This manifests itself in many ways, principally in a bias against private enterprise in parts of the bureaucracy and in certain important institutions such as the Industrial Court. This Annex concludes from this that external pressure continues to be vitally important in energizing the government's reform agenda.

The Annex points to a significant problem of "disconnect" between governmental perceptions of reform and those in the private sector. Government spokespersons point to a wide array of reforms including some that have accelerated in recent months. Business entrepreneurs suggest that they continue to experience difficulties in their dealings with the bureaucracy and a lack of access to high ranking decision makers. Corruption, owing to the low real purchasing power of civil service salaries and demoralization continues to be a serious problem despite strenuous efforts by the new government to reduce it.

Important Reforms

Despite daunting difficulties, the new Government has undertaken to implement some important reforms during the past four months. Among the most striking, reform of the National Bank of Commerce (NBC). At the end of November, this reform appeared hopelessly bogged down. In recent months, however, the government has dismissed about 3,000 workers, closed redundant branches, widened the spread between lending and borrowing interest rates, made a vigorous effort to collect on overdue loans, and virtually eliminated the flow of questionable loans.

The government has accelerated plans for the opening of the Dar es Salaam Stock Exchange (DAR-Seco). This institution, when fully functional, holds great promise for mobilizing savings, promoting investment in private enterprise and widening share ownership more broadly among Tanzanian citizens. It could also help to quicken the pace of divestiture inasmuch as the Parastatal Sector

Reform Commission (PSRC) wishes to use "unit trusts" (mutual funds), operating through DAR-Seco, as a means of broadening public participation in privatized enterprise.

Anti-Corruption efforts have also been intensified. These include the legislation of a new Leadership Code which clarifies standards of conduct by public officials, provides for disclosure of personal finances, and stipulates penalties including dismissal for misconduct. The Government has also appointed a special commission (the Warioba Commission) to investigate the problem and make recommendations for additional parliamentary action. It has intensified efforts to reduce corruption in the Customs and Revenue service and intensified plans for the operationalization of the Tanzania Revenue Authority. The government has also dismissed the boards of directors of 19 parastatal corporations, replacing older boards associated with mismanagement and corruption, with younger and more technocratically oriented management. And it has fired some high ranking parastatal officials.

The long-term effect of these measures remains to be seen. A disturbing sign is that all these measure are "state based." The government has either not considered or chosen not to implement more "market-based" (demand side) approaches to reducing corruption. In the latter category would be such reforms as reducing Customs and Excise tax rates to reduce the incentive for corruption, and a system of tri-partite monitoring committees with representatives of government and the trading and manufacturing sectors.

Parastatal Divestiture raises analytic ambiguities. By some standards the government has made striking progress in a technically difficult and politically sensitive area. The pace of divestiture compares favorably with other countries. An additional measure of success is that certain of the divested enterprises are presently considered as economic "success stories." These include Tanzania Breweries which has recently begun to make tax payments on its profits. There are also compelling reasons why divestiture should be a cautious process including the obligation to attain maximum recovery of taxpayer funds.

Of concern, however,is the fact that the government has not implemented modest process changes that could speed divestiture and that it may continue to view technocratic state management as a feasible alternative to privatization.

Land Policy in Tanzania is urgently in need of reform. The present state of land policy in Tanzania can best be described as one of utter confusion. Although the Ministry of Housing, Lands and Urban Development (MHLUD) is preparing new legislation on this issue, the prospects of a dramatic move toward forms of private ownership that would speed growth seem small. In addition, there is a host of bureaucratic difficulties impeding the process, including disarray in the country’s land registries.

TABLE OF CONTENTS

I. Introduction

The purpose of this annex is to up-date the December, 1995 report on Diversity in the Tanzanian Business Community: Its Implications for Growth. That report, completed as it was in the immediate aftermath of Tanzania's presidential and parliamentary elections, could only speculate on the country's post-election politico-economic trajectory. Its conclusion speculated about two possible scenarios. The first was **Reinvigorated Reform.** In this scenario, [newly elected President, Benjamin] "Mkapa is seen as an independent leader .. who has the strength and will to relaunch the reform effort by taking some very tough decisions early on and making sure that they are carefully implemented." (p. 68) The second speculative scenario was **Stalled Reform**. In this scenario, "Mkapa is seen as being too tied to [former President Julius] Nyerere and other barons of the party to be decisive in choosing a capable cabinet, taking tough decisions quickly, working closely with the Fund, Bank and donors, much less being able to provide strong visible leadership and a vision of some form of a new capitalist future."

Three and one half months have elapsed since these two scenarios were crafted. In most respects, however, it is still premature to form a firm judgement about which will prevail. The most likely scenario always seemed to be an ambiguous policy environment that would reflect a combination of progress and stagnation on the reform front. Some early signs have been encouraging although, as always appears to be the case in Tanzania, there is a mix of positive and negative indicators.

A large number of people have now had the opportunity to comment on the December report both orally and in writing. The list of respondents includes Tanzanian government officials, members of the private sector and the academic community, and a number of members of the bilateral aid organizations. It may be useful to begin this annex by presenting a synthesis of their observations and comments.

(1) The persistence of older values. There is a wide agreement that Tanzanian political culture is a mix of the old and the new. While the new Tanzanian government has officially committed itself to a vigorous implementation of the reform agenda, including continuing privatization of the parastatal sector and reform of land laws, a hankering for the old socialist order lurks very close to the political surface. Many Tanzanians including private citizens, civil servants and especially academics continue to express a wistful hankering for the old socialist homilies. The popularity of older socialist values manifests itself

in numerous ways including a bias against the private sector on the part of some civil servants and in the court system, a tendency toward statist rather than market based solutions on the part of the government, and a slower than optimal pace of reform even as liberalization proceeds.

(2) The Need for External Pressure. There is also agreement that the role of external actors is vital in the on-going implementation of reforms. The newly elected Government does not appear to "own" the reform process any more than its predecessor did. If external pressure for reform were removed, the reform process would almost certainly slow considerably. Back-sliding is an ever present possibility, as when the government recently sought to bar the currency exchange bureaus from the currency auction. This unfortunate step might not have been reversed had it not been for intense pressure from the International Monetary Fund.

(3) The Problem of Disconnect between Governmental and Private Sector Perceptions. There is a huge disconnect between the way in which government officials perceive the reform process in Tanzania and the way it is perceived within the business sector. Referring to the metaphor of the glass that opened the December report ("half full or half empty?"), one respondent suggested that it is the government which sees the glass as half full; the private sector, as half empty.

Spokespersons for the Tanzanian Government point with pride to the impressive list of reforms they have implemented in a relatively brief period. They believe that they are not given adequate credit, especially by donors, for Tanzania’s huge progress in monetary, fiscal, agricultural and trade reforms, for solid progress toward divestiture, and for important new laws including legislation revising the leadership code of ethics, and for progress in creating a unified revenue authority and a national stock exchange. They point with pride to the fact that this has all been accomplished in an atmosphere of civil peace and while a multi-party election was being organized.

Members of the Tanzanian business community, on the other hand, point out that they continue to struggle in an inhospitable and, indeed, adversarial environment. They emphasize on-going difficulties not only with bureaucratic laxity and corruption, but with officials who, reflecting Tanzania’s older value system, are hostile to the private sector. Traders point out that most government officials have never had to endure the indignity, disorder, and corruption they encounter daily in the Customs "Longroom", Tanzania's special version of a bureaucratic nightmare.

(4) Persistent Bureaucratic Difficulties. Some respondents suggested that the December report should have given greater attention to Tanzania's bureaucratic woes. These operate at several levels. At the most obvious level, there is the problem of inadequate compensation. The vast majority of Tanzanian civil servants earn a base pay of between $30 and $60 per month. Non-taxable allowances typically raise these salaries to between $100 and $200/month. Against the background of moderate to high inflation and rising prices, many civil servants, who often have extensive family obligations, find themselves caught in a financial squeeze.

This squeeze produces two outcomes. The first and possibly the most consequential is corruption. Knowing that corruption originates in low salaries does little to solve the problem however. Most respondents believe that corruption has now become so systemic that raising salaries would do little to reduce it since many civil servants have come to regard the gains from corruption as simply one more (non-taxable) "allowance" in their allowance package. Most members of the business community scoff at the government's anti-corruption efforts (discussed below) suggesting that these will be at most short-lived and largely ineffectual.

Some civil servants have also responded to their financial difficulty by taking on outside "consultancies." Sometimes the consulting work may be done outside their government offices during working hours. There are also reported instances of civil servants using their office facilities (and supplies) to complete their consulting assignments.

Another outcome of low real salaries is low morale. The symptoms are not difficult to discern and include absenteeism, alcoholism, and troubled family relations.[20] The cost to government in lost hours of work or poor quality work is undoubtedly considerable.

It is not surprising that a number of civil servants have responded to the new reforms with less than full enthusiasm. One civil servant commented that where business was once seen as the enemy, now the civil service seems to have replaced it as a "whipping boy" for those who wish to discuss the problems of Tanzanian society.[21]

Despite all this, the reform process does move ahead. The Tanzanian Government appears to be deeply aware that external financial assistance is now more than ever dependant upon tangible progress in the economic reform process and has clearly attempted to signal the donor community of this awareness. It has taken steps to attempt to reduce corruption and recently accepted an IMF Memorandum of Understanding (MOU) that lays out a rigorous and highly demanding series of performance "benchmarks" that must be complied with during the next three months. There is even some sense that the Government may sought out this MOU as indispensable to its own reform agenda. For it can point to the MOU in internal political discussions as evidence that its hands are tied if Tanzania is to be considered eligible for additional financial assistance from the donor community.

---

[20] See the excellent editorial by Robert Rweyemamu, "Tanzania Must Bring Discipline to the Workplace," in The East African, March 11-17, p. 9. One attorney interviewed for this study suggested that there is an urgent need for revision of the country’s family to deal more adequately with spousal abuse, and for better training of police and court officials in the way such cases might be handled.

[21] For an example, see Robert Rweyemamu, "The City Where Nothing Seems to Work Any More," in The East African, March 18-24, p. 9.

II. Recent Economic Reforms

National Bank of Commerce

By far the most impressive has been the dramatic reform of the National Bank of Commerce (NBC). Recall that at the time of the November study, this reform appeared hopelessly bogged down. One of the NBC's expatriate managers, hired on a consultant agreement through a World Bank contract, had expressed deep frustration at management's inability to stop the hemorrhage of politically inspired loans; the Organization of Tanzania Trade Unions (OTTU) had produced a legally binding Redundancy Agreement that seemed likely to stand in the way of any serious reduction in staff; and the outgoing government was equivocating over the number of branches to be closed and the timing of the closure process. A disturbing sign was the ill-concealed friction between the Bank's expatriate managers and the Board of Directors.

After the inauguration of the Mkapa government, the reform of this institution moved ahead with impressive speed. Approximately 3,000 staff members (of a total staff of about 7,500) were laid off; 34 local branches and 14 regional offices were closed; and the remaining six regional offices were made into zonal offices. Although the union's redundancy agreement resulted in layoff payments of approximately $22,000,000, this was a one-time payment and the Bank's on-going labor costs have been appreciably reduced. The NBC has also lowered interest rates on deposits, surprisingly with virtually no effect on the flow of deposits into the Bank; the bank's interest rates on outstanding loans have been slightly increased, resulting in a wider margin between the deposit and loan rates.

An even more tangible indication of the new government's resolve to complete the reform of the NBC was the fact that a new expatriate manager was quickly hired and has been given considerable authority over bank affairs. The NBC has brought new lending to a virtual halt.[22] Incoming deposits are used to purchase government bonds, a practice that -- although it deprives the business community of credit liquidity -- will continue until other measures to restore solvency have been successful. One of the most important of these has been a vigorous program, backed by government sanctions, to collect on overdue loans. This effort, too, has been highly successful. According to NBC figures, the percentage of non-performing loans has been declining dramatically. It stood at more than 90% in mid-1995. At the present time, that figure stands at about 70%

[22] The expatriate manager who had become involved in personal frictions with the NBC's Tanzanian administrators was dismissed during the Christmas period.

and bank officials expect that by the end of this year only about 30% of the Bank's loans will be non-performing. The Bank presently reports "cash cover" for 100% of foreign deposits and 40% of domestic deposits.

NBC officials are now highly optimistic about the Bank's future. It is Tanzania's only genuinely national bank since the new foreign private banks operate almost exclusively in Dar es Salaam, for the most part do not accept individual deposits, and have confined their lending to the most lucrative and secure transactions. For all of its well publicized woes, NBC appears to enjoy a surprising measure of confidence from the Tanzanian people, as indicated by the continuing flow of individual deposits. As the Bank returns to a position of full solvency, it can be expected to resume a lending program for Tanzanian business.

<u>Dar es Salaam Stock Exchange Company</u>

The new Government has announced accelerated plans to open a stock national stock exchange, the Dar es Salaam Stock Exchange Company (DAR-Seco). However the painfully slow pace of development of this institution and the very limited scale of operations envisioned during its early phase suggest that its potential contribution to the growth of the private sector is, at best, a matter of the distant future. Most of the business entrepreneurs interviewed for this study were either completely indifferent to the emergence of a stock exchange or, at most, willing to assume a watchful posture.

At the time of the November study, the timing of the national stock exchange did not appear at all auspicious. A Capital Markets Authority (CMA) had been created as an internal, advisory unit of the Bank of Tanzania as early as 1991. Its principal role was to prepare legislation to be submitted to the Parliament so that the existence of the CMA would be fully legalized. A <u>Capital Markets and Securities Act</u> was passed in early 1994 and a Capital Markets and Securities Authority (CMSA) was formally created during the following year. The CMSA is formally a regulatory government agency but its principal present function is to nurture DAR-Seco into existence as well as to perform more standard regulatory functions such as the licensing of dealers and promulgation of trading rules and regulations.

A CMSA Chief Executive was appointed in early 1995. As late as November, 1995, however, Tanzanian officials were still estimating a two year gestation period before the formal opening of the exchange toward the end of 1997. This would have meant a six year interval between the initial formation of the CMA and the commencement of stock trading on the exchange floor, slow progress as compared with such rapidly liberalizing countries as Ghana and Mauritius. The present Government has sought to accelerate this pace somewhat, committing itself to opening the stock exchange by the end of September 1996, a year earlier than anticipated by the previous administration.

When DAR-Seco does open, it will be a private company directed and controlled by the CMSA. It will also be a highly limited operation. According to the Business Times, "the main participants will be financial corporations, commercial corporations, insurance companies, the National Provident Fund and the Parastatals Pension Fund"; that is, a small number of large-scale institutions.[23] Eventually, these institutions will be able to buy and sell government bonds, corporate stocks and money market securities. There will also be several tiers of stocks, graded by level of risk.

Observers accustomed to thinking of stock exchanges as economically vital institutions that can make a dramatic difference in a country’s growth trajectory will be disappointed with DAR-Seco. Ideally, stock exchanges can help boost economic growth through their considerable role in mobilizing savings, facilitating the flow of investible capital and, most importantly, through their ability to generate capital for new but promising firms. It will be some time, however, before DAR-Seco can perform these functions. Even if DAR-Seco does begin in September, still an open question given the number of tasks that remain to be performed including the training and licensing of dealers, its initial role will be limited. Participation for an indeterminate period will be confined to about four dealers trading shares in a very limited number of companies. At the present time, only two three companies have been publicly identified as likely candidates for the trading floor including Tanzanian Cigarettes and Tanzania Breweries. What these companies have in common is that they are former parastatals that have been through a divestiture process. The shares that will be traded on the exchange floor will most likely be the Government’s shares acquired during the divestiture process.

Most of Tanzania’s private companies do not presently regard the opening of a Dar es Salaam Stock Exchange as an event that will have any appreciable bearing on their operations. Nor is it regarded as a development that will be able to contribute to their future ability to expand. The more dynamic of Tanzania’s new entrepreneurs, including owners of large scale manufacturing and trading enterprises, have, instead, formed close relationships with multi-national corporations, with the new private banks, or both. Those who were aware of DAR-Seco, usually from newspaper reports, generally indicated that they had no plans to change their business operations in such a way that they

[23] Business Times (Dar es Salaam), Friday, March 22, 1996.

could qualify, under the Capital Markets and Securities Act, to float stock on DAR-Seco.

The greatest impact of DAR-Seco may lie in its political potential for mobilizing more widespread public and governmental enthusiasm for the divestiture process. The great unguarded secret of the Tanzanian divestiture process -- indeed, the secret that explains why this process has been so frustratingly slow -- is that the officials of the Parastatal Sector Reform Commission (PSRC) and the political leaders of the Tanzanian Government are reluctant to divest publicly held companies in a manner that results in the assets of these firms being entirely taken over by a small number of wealthy investors.

DAR-Seco offers a potentially important means of avoiding that outcome. As a requirement of the divestiture process, PSRC envisions a stipulation that a portion of shares of the State Owned Enterprises (SOEs) be set aside to be purchased by a Governmentally established institution such as a Privatization Trust. Through a system of "unit trusts", individuals could deposit small sums of money in the unit trusts which, operating as mutual funds, could invest in the shares of the private companies. This would help to diffuse ownership of the new private enterprises more widely throughout the society.[24] If the unit trust system is does prove successful in widening share participation, it would help lessen the presently high level of political resistance to the divestiture process.

At the moment, all of this is entirely speculative. A major obstacle to the widening of share participation is the extreme poverty of the vast majority of Tanzanians which results in a very low savings rate, currently estimated at between 0% and 5% of national income.[25] Dar-Seco faces a host of other obstacles as well. For example, the stock exchange will have to compete for the limited available private savings with other financial instruments including Treasury Bills. Nor is there as yet legislation to provide tax incentives (such as lower tax rates) for privately held companies to restructure themselves as publicly held corporations. CMSA has made it clear that it will also call upon the Government to revise certain portions of the law, including the already much amended Companies Act and certain portions of the Tax Code. And the new Government has yet to grapple with the politically sensitive question of whether

---

[24] See Theo Mushi, "Stock Exchange Has a Chance," in The Guardian (Dar es Salaam), March 23, 1996, p. 8.

[25] According to one economist, Tanzania's modest net personal savings, as a percent of income, is entirely offset by government dissavings.

foreign investors will be allowed to buy stock in Tanzanian firms through DAR-Seco.

A major challenge will be to improve the stability of Tanzania's fiscal environment. Investors place a high premium on tax predictability. But in recent years, Tanzania's revenue crisis has compelled the government to change tax rates frequently, sometimes in the middle of a fiscal year. One set of rates may be announced in the annual budget announced in June and, as revenue shortfalls become apparent, these rates may be adjusted upward in the "mini-budget" which appears a few months later. Large investors and foreign investors especially are likely to be leery of such an environment.

As a result, DAR-Seco can be expected to remain a fairly limited operation for some time to come. Indeed, when it first opens, its initial scale of operations will be so small that it may not even be able to recover its operating costs[26] and, as a result, it will require donor assistance, presumably from the World Bank.

Anti-Corruption Efforts

The Tanzanian Government has sought to signal its awareness of the problem of corruption and its firm resolve to reduce it. Several important steps have been taken. The first of these involves new legislation. During its final year in office, the Mwinyi Government, passed the Leadership Code and Ethics Act (1995), for example. This law, which is a legislative follow-up to the 1993 Zanzibar Declaration, with which CCM party leaders rejected the old Nyerere era Leadership Code a matter of party policy. That Code, which forbade any party or government official from receiving a second income from any source, had proven to be so unrealistic that it was utterly unenforceable. Since it had long since become virtually impossible for most government leaders or party workers to live on their official salaries, the old Code had only resulted in turning large numbers of otherwise well meaning party employees and civil servants into economic hypocrites.

The new Code is an effort to have a more realistic and enforceable Code of Ethics. Principally, it creates an income disclosure procedure, lays out forth standards pertaining to conflict of interest, and prescribes penalties including "retirement in the public interest" for violators.

---

[26] Stock exchanges generally earn their income from such sources as company listing fees, dealers' licenses and application fees, and trading fees on the exchange floor.

The Mkapa Government has followed the new Leadership Code with several important measures of its own. It has created a Commission on Corruption chaired by former Prime Minister Joseph Warioba. This Commission, known as the Warioba Commission, has a mandate to investigate the problem and make recommendations for further legislative action. The Mkapa Government has also taken steps to deal with parastatal corruption. It recently dismissed the Boards of Directors of 19 parastatal corporations, replacing them with newly appointed Boards of its own. While the principal purpose of this changeover appears to be to infuse the parastatals with younger, more technocratically oriented and gender-balanced leadership, it is also clearly intended to replace an older generation of parastatal leaders who, if they had not actively colluded in the corruption within these institutions, had at the very least tolerated it.

The Government has also sought to use the Parliamentary committee structure, particularly the Parastatal Organizations Committee (POC), to investigate parastatal accounts. Its intention appears to be to have Parliament become more directly involved in disclosures about parastatal mismanagement. This could help to make the Parliament more amenable to a quickening of the divestiture process.

Perhaps the most widely noticed measure, however, has been the dismissal of public officials. Shortly after taking office, the Mkapa government dismissed about one dozen officials of the Treasury’s Revenue Department and, in early March, it dismissed about the same number of officials from the Customs Department, including the Acting Commissioner for Customs. The Government has also initiated a high profile investigation of one very high ranking official, a former member of Parliament and cabinet minister who later served as Executive Director of the Capital Development Authority (CDA). Although these measures have been criticized in the press as insufficiently punitive for public officials who stole large sums of money from the government, they are intended as a signal of the government’s resolve to lessen the incidence of corruption among public servants.

This list of anti-corruption measures is impressive for a government that has been in office for only about four months and that has a host of other highly consequential matters on its agenda. It would be both churlish and premature to suggest that the effectiveness of the government’s efforts will be limited. The Warioba Commission has yet to report its findings and recommendations and, in any case, a vigorous debate about the likely efficacy of the government’s efforts is already underway in the press. The <u>Business Times</u>, for example, has editorialized that the dismissal of parastatal boards has focussed on parastatals of lesser importance and that the new method of appointing parastatal boards, which originates the appointment process in the parent ministry, is unlikely to be a significant improvement over the old method, which depended more heavily upon nominations of board members from within the parastatals themselves.[27]

What is revealing about these measures and, in the end, perhaps most portentous, is their common denominator. All of the measures listed above are state-based rather than market-based approaches to solving the problem of corruption. Thus far, at least, the government has not only failed to undertake any market-based strategies for dealing with corruption. It is not even obvious that it has seriously considered any, even those that have been presented to it by the country's business community.

The most recent of these is a proposal to reduce corruption by lowering taxes, especially the country's sometimes high tariffs on imported finished goods. In a document titled Tax Evasion -Its Causes and Logical Cure, two Tanzanian business entrepreneurs have suggested that the root cause of corruption in the Custom's Service is Tanzania's high customs duties that raise prices to levels that are unaffordable by consumers.[28] In their view, lowering customs duties to more realistic and affordable levels would have two important benefits. It would substantially reduce the both the incentives and the opportunity for corrupt behavior, thereby significantly raising the revenue yield from customs duties. And, its proponents argue, it would benefit consumer welfare by making certain imported consumer goods more easily affordable.

It is doubtful that this proposal will make much headway. Its core premise, that lower customs rates will encourage greater compliance by importers, is somewhat flawed. Given the systemically rooted nature of corruption in the Customs Service, it is more likely, at least in the short run, that lowered customs rates will simply establish different parameters of collusion and evasion between importers and customs officials. There is also reason to doubt the consumer welfare aspect of the importers' argument. One might doubt, for example, that consumer welfare is significantly enhanced when imported luxuries such as premium European beers are sold at inexpensive prices. The whole idea behind high tariffs on such items (whether beers or luxury cars) is to induce consumers to shift their patterns of behavior in response to price incentives and disincentives.

---

[27] See "Hail Mkapa for Dissolving Boards," in Business Times (Dar es Salaam), March 22, 1996, p. 4.

[28] A. A. Mufuruki and J. B. Rugemalira, Tax Evasion - Its Causes and Logical Cure (Dar es Salaam: March 18, 1996).

The economics of the Tax Evasion proposal are less important, in the end, than its political relevance. The Tax Evasion proposal is the most recent in a chain of similar proposals that have been sent to the Government for its consideration. Indeed, the previous Minister for Finance, Mr. Jakaya Kikwete, had indicated the government's willingness to consider a rationalization of the taxation system that would reduce rates and distribute the tax burden more widely. But, possibly owing to donor pressure to improve revenue collection, nothing further was done about this during the Mwinyi administration. As a result, the authors of proposals for tax reduction have been frustrated at what they perceive to be the government's unwillingness to engage in a taxation dialogue with the business community.

This may now be changing. The present Minister for Finance, Professor Simon Mbilinyi, has announced that he is prepared to meet with members of the business community to discuss tax rates with a view toward a serious consideration of the proposition that lowering of the rates might produce both greater tax fairness and improved revenue collection.[29] Thus, the Tax Evasion proposal may have its greatest importance in having initiated a long overdue dialogue between government and the business sector over a whole range of economic matters.

Another market-based proposal worth considering is one that has been implemented with some success in Kenya; namely, the creation of a system of tri-partite monitoring committees. These committees, whose mandate is to monitor the process of customs assessment and collection at the Port of Mombasa, are composed of representatives of the manufacturing sector, the trading sector and the government. The operative idea is a simple one: to create a balance of diverse and conflicting interests which, operating together, would create a uniform, fair and predictable policy environment.

Parastatal Divestiture: Due Diligence or Undue Delay?

No single aspect of Tanzania's reform program is more difficult to evaluate than the divestiture of state-owned enterprises (SOEs). By any number of criteria, Tanzania has done well. In a relatively short period of time, the Government has divested about one-fourth of the country's SOEs. Between January of 1992 and December 1995, the Government had divested a total of 95 parastatals through a variety of divestiture modalities including outright closure, liquidation, leasing, joint venture, sale, management and employees buyout, and performance and management

[29] See The Express (Dar es Salaam), March 24-27, 1996, pp. 1 and 3.

contracts. This represented slightly more than one fourth of the approximately 371 parastatal corporations originally scheduled for divestiture.[30] During the first three months of 1996, the government gave its final approval to the divestiture of an additional three SOEs, bringing the total to just under 100. The government also announced plans and a timetable for one of Tanzania's largest and most important parastatal institutions, Air Tanzania Corporation. According to observers in the World Bank, this compares more than favorably with the sub-Saharan Africa region as a whole and even with such "star" divesters as Morocco.

It is equally impressive that Tanzania's deliberate and highly methodical approach to divestiture has resulted in a number of the divested companies being dramatic success stories. A number of the divested companies, including Morogoro Shoe Factory and Tanzania Breweries, have, within a short time of their privatization, been able to boost production, increase employment and contribute tax revenues to the Tanzanian Treasury rather than depend upon it for subsidies.

There are, moreover, any number of compelling reasons why divestiture should be undertaken in a prudent and careful manner. The SOEs, even those that are in utterly decrepit and bankrupt condition, represent a massive investment of Tanzanian taxpayer funds. They are literally the people's assets. A divestiture process that resulted in the recovery of less than the maximum possible taxpayer monies would be irresponsible. The issue of how to maximize financial recovery requires a complicated accounting analysis for each firm: would the revenue payoff from divestiture be maximized through outright sale, which would produce a risk-free and immediate cash benefit, or from a joint venture arrangement that, while carrying somewhat greater risk, might provide for a continuing downstream flow of dividend income for the government?

If divestiture is to proceed in a prudential manner, a host of questions need to be addressed. Should non-core activities be stripped off and sold separately (e.g., a printing company attached to a public utility company)? What are the assets and liabilities of firms scheduled for privatization? What are their obligations to retirees? To unpaid workers? To unpaid financial creditors both foreign and domestic? To supplier firms that may have delivered goods and services? To what extent can these debts be absorbed by the new owners or venture partners? Which debts can be written off and others absorbed by government?

---

[30] See Sunday Observer (Dar es Salaam), March 17, 1996, p. 5.

There are also a host of questions pertaining to prospective purchasers. How should a high cash offer be valued over one that undertakes important performance commitments as regards production targets, job creation, and revenue generation? This latter question was of utmost importance in the divestiture of the Tanzania Cigarette Company and resulted in the decision to offer the company to R. J. Reynolds in preference to a higher bidder. Does the prospective purchaser have a solid record of performance in such ventures? Is there a credit history which insures that funds will be available to rehabilitate the industry? Such questions are not only technically difficult but, since the government's revenue needs are an integral aspect of its highly sensitive relationship with multi-lateral donor organizations, require political decisions that cannot be made by a technical organization such as the Parastatal Sector Reform Commission (PSRC).

Tanzania's divestiture process, like that of any other country embarked upon this reform, is also cloaked in a host of politically charged concerns. Among the sensitivities that Tanzanians express daily about divestiture are the following. Will divestiture result in a loss of jobs? Will vital national interests be adversely affected such as food security, transportation services (especially important in the divestiture of ATC), or the procurement and distribution of petroleum projects? Will foreign control of some divested enterprises emerge and, if it does, what will it imply as regards the future opportunities that Tanzanians enjoy to rise to technical and managerial levels of the privatized firms? And, will divested firms that have been financed initially from taxes collected widely throughout the society end as the assets of a small, wealthy minority?

These are legitimate concerns. If the Tanzanian political process during the period of socialism demonstrated anything, it demonstrated the willingness of the Tanzanian people to subordinate strictly economic values to the achievement of broader social and political objectives. If it began to appear that the divestiture process were resulting in a greater and greater concentration of wealth, both governmental and public support for the divestiture process, already shaky, might be jeopardized. As a result, officials in the PSRC have been concerned to structure the divestiture process in such a way as to open up the possibility of shareholding to large numbers of Tanzanians. Since the most promising means of doing so is through a system of unit trusts that acquire shares in divested companies through DAR-Seco, there has been some perceived value in linking the timetable for divestiture, where appropriate, to the timetable for the creation of a national stock exchange.

All of this having been said and, indeed, a number of additional arguments for caution and circumspection having been left unsaid, it is nevertheless impossible to avoid some level of concern that the Tanzanian divestiture process is unduly protracted. Part of this concern arises from the extraordinarily cumbersome process for divestiture the Tanzanian Government has put in place. The Public Corporations (Amendment) Act, 1993 creates a procedure in which unnecessarily complex checks and balances are built into the decision-making process. In a long sequence of stages, the decision begins with technical analysis at the PSRC, then moves to the Cabinet and appropriate parent ministry, and, following ministerial and cabinet approval, back to PSRC for finalization.

A major boost to the timetable for divestiture would be to introduce a change in the political procedure that replaced the requirement of formal governmental approval with a negative veto system. In this system, a divestiture would proceed according to a timetable fixed by the PSRC unless there were specific objection at the level of the cabinet or parent ministry. In the vast majority of cases, where the level of controversy is low and where there is high value in timely action (as when a prospective purchaser becomes impatient), the negative veto system would be a vast improvement, and might avoid months of needless delays. That the government has not chosen to simplify the process in this manner gives rise to concern that inappropriate political factors arise, especially an unwillingness to see potentially valuable assets pass out of the hands of the state and of the state officials who manage them.

The new administration has yet to convince the donor community that it is resolute about the divestiture process. Paradoxically, the recent decision to replace the boards of directors of a number of parastatal corporations has added to this concern. One interpretation of this recent decision was that it wished to replace an older generation of political notables, many of whom were identified with the old ideology, and with the corruption and nepotism of the older era, with a younger generation of younger, more technocratically minded leaders.[31] In one certain sense, such a change would be a vast improvement. In another, it might not augur well for the future. For it could also mean that the new government has not entirely given up on the view that a technocratic style of state management might succeed where a more political style did not. It is regrettable that the government did not accompany its decision about the replacement of parastatal boards with a public clarification of its reasons for doing so.

Land Policy

[31] See Robert Rweyemamu, "Youth and Merit Criteria for New-Era Parastatals," in The East African, March 25-31, 1996, p. 9.

The current state of land tenure policy in Tanzania can best be described as one of utter confusion. The Government's Ministry of Housing, Lands and Urban Development (MHLUD) is presently completing the final draft of legislation for a National Land Policy (NLP) to be submitted to the Parliament, presumably in the near future. Although the final details of that policy, which has now been in gestation for more than six years, are not yet known, the early indications are that it will be an attempt to find a compromise between a wide array of conflicting principles, rights and purposes. The new policy is expected at one and the same time to seek to improve security of tenure, provide for poverty reduction by aiming for some sort of equity in land distribution, and, among other values, to take into account the need to help promote economic growth by treating land as a commodity.

The land issue in Tanzania has been the subject of an innumerable series of study commissions, governmental reports, and donor conferences, not to mention the even greater number of ministerial workshops, public meetings and special seminars. The literature on this topic is of encyclopedic proportions and bewildering complexity.[32] It would require a report of massive dimensions merely to summarize the relevant literature and capture its description of the current state of affairs. Since the current state of affairs is so completely unsatisfactory, little would be gained.

To grasp the current situation, it is best to return to certain basics. Two points are of overwhelming relevance.

First, recall that the point of departure for this study of Diversity in the Tanzanian Business Community was a concern that indigenous Tanzanians may not be participating fully in the wealth creation being fostered by economic liberalization. The initial question to be addressed was a simple one: was the fact that much of the country's mercantile and industrial wealth appeared to be owned by Tanzanian citizens of non-indigenous origin an appropriate subject of donor intervention? Such an intervention did not seem appropriate for a variety of reasons.

Among them, the following. If agricultural land is taken into account, the basis for concern about African participation in this country's economic assets melts away. For if the value of agricultural land were weighed alongside the value of the country's mercantile and industrial sectors, the net worth productive assets in indigenous Tanzanian hands would not only exceed all other categories of wealth combined, but do so by some

---

[32] See, for example, The United Republic of Tanzania, Report of the Presidential Commission of Inquiry into Land Matters: Volume I. Land Policy and Land Tenure Structure (Ministry of Lands, Housing and Urban Development, 1994).

considerable multiple. The difficulty in contemporary Tanzania is not that Africans lack wealth in productive assets. The difficulty is that the present land tenure system is so confusing to all concerned, so poorly administered and governed by such a bewildering variety of executive decrees, parliamentary laws, traditional customs, case precedents and ad hoc practices that it is all but impossible for any individual to convert his or her landholding into liquid wealth that could be further invested in the agricultural sector or in other forms of productive enterprise. In a nutshell, Tanzania's present land system is utterly inappropriate for a market-based economic system.

The second basic point is that in market-based economies, the law treats land as a commodity like other productive assets. The purpose of land law in such economies is to clarify individual rights and entitlements and, in so doing to facilitate land transactions including the use of land as collateral for loans, and the purchase and sale of land between willing buyers and willing sellers. The concept that, generally speaking, undergirds land law is that of "best and highest use." In addition to the concept and the practice of individual title, there is an array of legal precepts intended to return land to productive use. These include means of acquiring ownership such as "prescriptive easement" and "adverse possession." So far as the social welfare is concerned, the law assumes that this is maximized when a society's productive assets, including land, are utilized to their maximum potential value.

It is also the purpose of land law in market-based economies to see to it that, if land owners do not live up to their financial obligations as regards mortgage and tax payments, their land can be foreclosed upon and sold in the marketplace at a market value. By treating the land as an owned and transferable asset, the law also makes it taxable by governmental authorities, a matter of not inconsiderable importance for Tanzania.

It does not require much observation to recognize that this is not the present situation in Tanzania. Nor does it require much observation to notice that Tanzania's highest ranking political leaders, including those in the MHLUD, are not much inclined to lend their support to a land law that launches a process of widening individuation of title.[33] Instead. the present land tenure situation and the legal efforts currently underway to improve it offer one of the very clearest examples of Tanzania's on-going statist mentality and distrust of market forces. The underlying presupposition which has directed Tanzanian government policy toward land since the early

---

[33] See, for example, "Land Tenure Policy Still Beating Around the Bush" in The Express (Dar es Salaam), February 29, 1996, p. 10.

independence period has held that the operation of market forces in the countryside would lower, not improve, rural welfare and that unless the state and its political sub-units are directly involved in the administrative allocation of economic resources, Tanzanians will be poorer as a result.

This presupposition -- which led to one of the most disastrous programs in recent Tanzanian history, the ujamaa (collective) village program of the late 1960s to mid 1970s -- is so deeply ingrained in Tanzanian official thinking issues that political leaders who otherwise acknowledge the benefits of the market environment tend to doubt its value as applied to rural land. A number of Tanzanian officials were interviewed for this study and asked, quite simply, why Tanzania does not have a system that gives farmers individual title so that they can more easily use their land as collateral to obtain mortgage loans. Although some seemed intrigued by the idea, most answers were a combination of state paternalism combined with disparagement of the rationality of farmers' economic behavior. The common denominator of official viewpoint on this issue seemed to be that farmers who received mortgage loans would misspend the money and lose their land. Many officials believed that it was the responsibility of the government to prevent them from doing so.

This brings us directly to the present situation. At the risk of gross oversimplification -- but in order to begin to clarify a subject of daunting complexity -- it can be said that there are two categories of land in Tanzania: (1) Registered Land and (2) Customary Land. In the category of Registered Land is most of the land in Tanzania's major cities and towns, and much of the land in its high intensity agricultural areas, especially its export crop regions. This land is technically "owned" by the President who holds "radical" (that is root) title, and who distributes the land through the Commissioner of Lands on the basis of 33, 66 or 99 year renewable leases. These leases are, in effect, titles to land and are registered in the Registry of Lands in Dar es Salaam and/or in zonal registries throughout the country. Legally speaking, this leasehold land can be transacted; that is, bought, sold or rented in the marketplace. In practice, such transactions would accurately reflect the changing value of land in the marketplace.

There are two principal difficulties to the Registered Land system. First, it covers only a fraction of Tanzania's land area. And, since land values are rising everywhere owing to population growth and increasing demand, there is a market distortion in the value of Registered Land owing to the fact that the "market" in customary land operates differently. Second, and more importantly, the condition of the country's Land Registries is utterly deplorable. The administrative apparatus for registering land ownership and issuing titles is completely inadequate. One of the land tenure reports on Tanzania describes the situation in the following terms.

> At the moment, land registration is haphazard, slow and unsystematic; land registries are in a chaotic state; and cadastral information is inaccessible and unreliable. That means that no clear view of land transactions in particular quantum categories can be obtained.[34]

As a result, individuals who have applied for title deeds to property report waiting for months with no outcome. Sometimes their papers are lost or misplaced and sometimes the officials involved want bribe money to move the paperwork along.

The second category of land in Tanzania is Customary Land. The challenge facing the MHLUD is how far to extend the concept of individual title to the customary land areas. There are numerous cultural sensitivities not the least of which is that in the vast majority of Tanzania's customary areas, women may not inherit land. But the major problem is the government's long-standing reluctance to allow the broad diffusion of individual ownership and title outside the registered land areas.

History is instructive. Toward the end of the colonial period, the East African Royal Commission (1953-1955) recommended that all land in East Africa be converted to a form of readily transferable individual title. This recommendation was accepted in Kenya which launched a program called Land Registration and Adjudication whose to convert traditional (customary) land areas to individual, secure ownership. Over a period of about thirty years, that program extended the system of individual titles throughout the most important agricultural regions of the country. The Commission's recommendation was <u>not</u> accepted in Tanzania, largely because of the opposition of Julius Nyerere who had already emerged as the leader of the country's principal nationalist political movement, the Tanganyika African National Union (TANU). Nyerere was deeply opposed to idea of land becoming the property of individuals and especially to the idea that individuals should have the right to buy and sell land freely. His reasoning, whether in the form of law or administrative practice, has guided the government's policy since that time.

Despite long-standing political reservations about a system of individual titles, and the widespread assumption among many Tanzanians that an open market in land will lower social welfare, the new NLP may well try allow for some increased measure of

---

[34] Food and Agriculture Organization, <u>Final Report on Reform of Land Tenure and Land Use Legislation in Tanzania</u> (Dar es Salaam and Rome: FAO, July 1995), p. 48.

individual title. Tanzanian political leaders have accepted in principle that one of the objectives of the new Government should be to create a legal environment in which individuals who hold rights to physical property can easily convert that asset into liquid, investible capital. The draft language for the new NLP takes a modest step in this direction. It states that "[I]individuals should be allowed to obtain individual titles within an area not designated for communal uses, land conservation and other specified village or community projects."

Even if this carefully qualified language is included in the final legislation, the prospects that it will soon facilitate a more active market in rural land are negligible. As noted above, the administrative difficulties involved in obtaining a title deed to property are formidable. And even if the country's network of Land Registries were improved, there would still be a vast distance to travel before rural Tanzanians could monetize the value of the land holdings. A land mortgaging system requires and combines the talents of a wide range of individuals including surveyors, assessors, risk-oriented lending officers in banks, court personnel accustomed to processing collateral-based transactions, lawyers experienced in foreclosure proceedings, and others. The training and aggregation of that array of talent could require a lengthy period of time.

By far the greatest obstacle to an orderly transition to individual tenure, however, is the fact that there are presently vast areas of Tanzania where it is unclear which of the two land systems applies. The reason for this confusion has to do with the implementation of the Ujamaa (socialist) village program of the early 1970s. In implementing this program, Regional Commissioners were given vast authority to take land for administrative purposes. Some of the land they seized to establish socialist villages was registered land to which individuals held title.[35] At other times, the land taken for socialist villages belonged to traditional villages that had held it under customary tenure. In 1992, the Government passed a law that sought to extinguish customary rights in areas where socialist villages had been established. This law was silent on the matter of registered lands and some individuals have sued the government (in at least one case, with spectacular results) for compensation. As a result, the legal picture in areas with socialist villages is now in complete confusion.

---

[35] Sometimes the owners were required to forfeit their title papers and, where this occurred, there was an expectation that the title papers would be placed on file at the Treasury. Often the land was simply taken and individuals were allowed to retain physical possession of title documents.

Tanzanian land policy is, thus, at a genuine crossroads. Since the NLP implementing legislation can be expected to define and determine the sort of land rights that Tanzanians will enjoy for some time to come, its terms will have an enormous bearing on the development of the countryside. The East African Royal Commission predicted that unless Tanzania adopted a system of individual tenure, its agricultural sector would suffer from stagnation. That prediction turned out to be largely correct, though for some unforeseen reason. Today, the Tanzanian Government has an opportunity to re-visit that decision and to take important steps toward creating a system of individualized property ownership.

INTERVIEW LIST

I. Re-Interviews

Simon Caink, Standard & Chartered Bank

Moiez Halari, Mabibo Enterprises

Harry Mrema, FSN

E. R. K. Mshiu, Managing Director, Tanganyika Farmers Association

Alois Mtowa, Parastatal Sector Reform Commission

Daniel Ngowi, FSN

Nina Pendaeli, Standard & Chartered Bank

Samuel J. Wangwe, Director, ESRF

II. New Interviews

Ulrike Augustin, Graduate Researcher, University of Bayreuth

R. P. Brigish, Resident Representative, World Bank

Thomas J. Chmelik, Chief Financial Officer, National Bank of Commerce

John Dunstan Lifa Chipaka, Opposition Member (TADEA)

Shabbir Dewji, Tasia Industries

Hugh Evans, Consultant, Ministry of Housing, Lands and Urban Development

Malcolm Hall, Agricultural Economist (World Bank)

Nuruddin Janmohamed, Canada Life Insurance Co.

Willy Kitima, Assistant Editor, Business Times

Erik Korsgren, Economist, Embassy of Sweden

Mwanaidi Maajar, Maajar, Rwechungura & Kanmeja (Advocates)

Dr. Joseph L. Masawe, Senior Economist, Bank of Tanzania

Dr. Fratern M Mboya, Chief Executive, CMSA

Festus L. Osunade, Senior Resident Representative, IMF

Haroub Othman, Advocate, High Court of Tanzania

Hamida Sheikh, Sheikh & Co., Advocates

Ole Therkildsen, Education Consultant, Danida

Franco Tramontano, Executive Director, DTV

Theodore R. Valentine, Pay Reform Advisor, Civil Service Reform Programme

III. Special Respondents

Dr. Enos Bukuku, Economic Advisor, Prime Minister’s Office

Mr. M. M. Kalanje, Executive Secretary, TCCIA

Dr. Alex Khalid, Member, National Assembly

Dr. Humphrey Moshi, University of Dar es Salaam

Dr. P. B. Rweyemamu, Acting Director, Planning Commission

Professor J. Semboja, Economic Research Bureau (ERB), UDSM

Ibrahim Seushi, Coopers & Lybrand

Professor J. Kanywaji, Law Faculty, UDSM

Dr. Paula Tibandebage, Research Fellow, ESRF

Ali Mufuruki, Managing Director, Infotech Computers, Ltd.